

U.S. ASSISTANCE PROGRAMS IN EUROPE: AN ASSESSMENT

HEARING BEFORE THE SUBCOMMITTEE ON EUROPE OF THE COMMITTEE ON INTERNATIONAL RELATIONS HOUSE OF REPRESENTATIVES ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

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MARCH 27, 2003
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Serial No. 108–11
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Printed for the use of the Committee on International Relations



Available via the World Wide Web: http://www.house.gov/international_relations

U.S. GOVERNMENT PRINTING OFFICE

86–082PDF

WASHINGTON : 2003

For sale by the Superintendent of Documents, U.S. Government Printing Office
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U.S. ASSISTANCE PROGRAMS IN EUROPE: AN ASSESSMENT

THURSDAY, MARCH 27, 2003

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON EUROPE,
COMMITTEE ON INTERNATIONAL RELATIONS,
Washington, DC.

The Subcommittee met, pursuant to call, at 1:54 p.m. in Room 2200, Rayburn House Office Building, Hon. Doug Bereuter [Chairman of the Subcommittee] presiding.

Mr. BEREUTER. The Subcommittee will come to order. I regret starting late, but the House was involved in a number of votes. Mr. Wexler will be along soon I imagine, but I think in the interest of trying to expedite the proceedings, I will start with my opening statement. The good news is that is all of the votes for the day and the week. The bad news is Members may be headed for the airport, but at least I will be here to benefit from it.

Today the Europe Subcommittee will hear from the Acting Coordinator for U.S. Assistance to Europe and Eurasia, Thomas Adams, and Assistant Administrator of the Bureau for Europe and Eurasia, Dr. Kent R. Hill, on U.S. assistance programs in Europe, specifically the support for Eastern Europe Democracy (SEED) Act and the Freedom Support Act (FSA).

Since the last congressional hearings to evaluate the progress of SEED and the FSA programs probably was held several years ago, I think it is appropriate that we hold this hearing today to review the current status of these programs.

The SEED Act, established in 1989, and the creation of the Freedom Support Act, which followed shortly thereafter, became the foundations for U.S. assistance in Eastern Europe, the Baltic states, and the Caucasus region. These programs signified our commitment to support transition of former Communist nations to democracies after the Iron Curtain began to collapse throughout Eastern Europe in 1988 and 1989. The SEED and FSA programs were designed to help implement provisions of the Foreign Assistance Act of 1961 which was created to promote the foreign policy, security, and general welfare of the United States by assisting peoples of the world in their efforts toward democratic governance, economic development, and internal and external security.

It is now the 14th year of SEED assistance. It continues in its mandate to give its highest priority to programs that increase civil security, effective governance, and private sector-led economic growth in the region. Significant achievements have been made over the course of its existence in the following obvious areas. First,

eight to the original 15 countries have graduated from the program: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia. Second, seven recipient countries—Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia—were invited to become members of the North Atlantic Treaty Organization, and eight recipient countries—the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia—were invited to join the European Union in 2004 with Romania and Bulgaria to be under consideration in 2007.

While this should be a time to commend the accomplishments of the SEED program, it is also a time to question whether the program has fulfilled its mission. Similarly, in 1991, the thrust of the debate between Congress and the Administration was whether and how to assist the former Soviet Union as it became increasingly unstable and appeared headed toward dissolution. One of our chief concerns then, and one which remains today, was our concern about Russia's large nuclear arsenal, along with its stocks of chemical and biological weapons of mass destruction. We were also concerned about such weapons in other former states of the USSR and, of course, with the effect of all these large arsenals and production capabilities on the region. Congress responded with the Nunn-Lugar legislation in 1991 and then in 1992, with the Freedom Support Act.

The FSA continues the U.S. commitment to Eurasia's integration into the Euro-Atlantic community, and today, the critical role of these front-line states in the war against terrorism.

U.S. assistance to Europe and Eurasia remains important and I am pleased and proud of the achievements that have been made through these programs. They continue to aid in the efforts of building stable, democratic governments, free-market economies, and nonproliferation activity intended to stop the buildup and trafficking of weapons of mass destruction. Secondly, of course, the importance of U.S. assistance is noted by the fact that 13 of the original 40 countries listed on the President's March 20th list of coalition members for the support of war in Iraq are countries of the former Soviet Union.

Nevertheless, it seems that the efforts and accomplishments of these programs in some areas and in some countries has been marked by uneven progress, and that is not too surprising. Although some very important achievements have been made, such as the increase in gross domestic product in most Eurasian countries, progress in democratic reform has not necessarily been matched in each country. Also, very large segments of the population in the region still live in poverty. Of course, it is our legislative responsibility to question the effectiveness of these programs and determine if revision needs to be made.

Today, we are fortunate to have two witnesses who have direct responsibility for U.S. assistance in these areas of Europe and Eurasia. Gentlemen, during this hearing we expect to receive your assessments of the current status of the programs, the continued appropriateness of the rationale and overall objectives of the assistance, the current recipients of the assistance programs, and the amount of funding of each for Fiscal Year 2004 that is proposed.

I look forward to the testimony of the witnesses. I will introduce them further in a minute or two, but I would like next to turn to the distinguished Ranking Member of the Subcommittee, the gentleman from Florida, Mr. Wexler, for his opening comments.

[The prepared statement of Mr. Bereuter follows:]

PREPARED STATEMENT OF THE HONORABLE DOUG BEREUTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA, AND CHAIRMAN, SUBCOMMITTEE ON EUROPE

Today the Europe Subcommittee will hear from Acting Coordinator for U.S. Assistance to Europe and Eurasia, Thomas Adams, and Assistant Administrator of the Bureau for Europe and Eurasia, Dr. Kent R. Hill, on U.S. assistance programs in Europe, specifically the Support for East European Democracy (SEED) Act and the Freedom Support Act (FSA).

Since the last congressional hearing to evaluate the progress of SEED and FSA programs probably was held several years ago, I think it is appropriate that we hold this hearing today to review the current status of these programs.

The Support for East European Democracy (SEED) Act, established in 1989, and the creation of the Freedom Support Act (FSA) which followed shortly thereafter became the foundations for U.S. assistance to Eastern Europe, the Baltic States and the Caucasus region. These programs signified our commitment to support the transition of former Communist nations to democracies after the Iron Curtain began to collapse throughout Eastern Europe in 1988 and 1989.

The SEED and FSA programs were designed to help implement provisions of the Foreign Assistance Act of 1961 which was created to promote the foreign policy, security, and general welfare of the United States by assisting peoples of the world in their efforts toward democratic governance, economic development and internal and external security.

It is now the 14th year of SEED assistance. It continues in its mandate to give its highest priority to programs that increase civil security, effective governance, and private sector-led economic growth in the region. Significant achievements have been made over the course of its existence in the following obvious areas:

- Eight of the original fifteen countries have “graduated” from the program. (The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia);
- Seven recipient countries (Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia) were invited to become members of the North Atlantic Treaty Organization (NATO); and
- Eight recipient countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) were invited to join the European Union in 2004 with Bulgaria and Romania to be under consideration in 2007.

While this should be a time to commend the accomplishments of the SEED program, it is also a time to question whether this program has fulfilled its mission.

Similarly, in 1991, the thrust of the debate between Congress and the Administration was whether and how to assist the former Soviet Union as it became increasingly unstable and appeared headed toward dissolution. One of our chief concerns then, and one which remains today, was our concern about Russia’s large nuclear arsenal, along with its stocks of chemical and biological weapons of mass destruction. We were also concerned about such weapons in other former states of the USSR and, of course, with the effect of all of this large arsenal and production capacity on the region. Congress responded with the Nunn-Lugar legislation in 1991 and then in 1992, with the FREEDOM Support Act (FSA).

The FSA continues the U.S. commitment to Eurasia’s integration into the Euro-Atlantic community, and today, the critical role of these front-line states in the war against terrorism.

U.S. assistance to Europe and Eurasia remains important and I am pleased and proud of the achievements that are being made through these programs. They continue to aid in the efforts of building stable democratic governments, free market economies and non-proliferation activity intended to stop the build-up and trafficking of weapons of mass destruction. Secondly, of course, the importance of U.S. assistance is noted by the fact that 13 of the 40 countries listed on the President’s March 20th list of coalition members for the support of a war in Iraq are countries of the former Soviet Union.

Nevertheless, it seems that the efforts and accomplishments of these programs in some areas and in some countries has been marked by uneven progress. Although some very important achievements have been made, such as the increases in gross domestic product (GDP) in most Eurasian countries, progress in democratic reform has not necessarily been matched in each country. Also very large segments of the population in this region still live in poverty. Of course, it is our legislative responsibility to question the effectiveness of these programs and determine if revisions need to be made.

Today, we are fortunate to have two witnesses who have direct responsibility for U.S. assistance in these areas of Europe and Eurasia. Gentlemen, during this hearing we expect to receive your assessments of the current status of the programs, the continued appropriateness of the rationale and overall objectives of the assistance, the current recipients of the assistance programs, and the amounts of funding of each for Fiscal Year 2004.

I look forward to the testimony of the witnesses.

Mr. WEXLER. Thank you very much, Mr. Chairman, and will try to be relatively brief. I, first, want to thank you for holding today's Subcommittee hearing regarding our assistance programs in Europe and Eurasia. While most of the world's attention is, rightfully so, on Iraq and the Middle East, I believe it is critically important to consider those aid programs that enhance the stability and prosperity of our allies and friends, especially those throughout Europe.

I would also like to thank today's witnesses, Mr. Adams, as well as Mr. Hill. I am very much looking forward to hearing both of your insights as to the myriad of challenges and obstacles facing American assistance programs in Europe, in addition to your assessments of our nation's humanitarian investments in the region. I would particularly be interested in hearing what, if any, effect or changes will occur in this region in terms of our post-Iraq strategy and in recognition of the consequences and ramifications of our policy in Iraq, what, if any, changes there will be in this region so as to enhance the likelihood of the success of our programs.

As we reposition America's priorities in our post-9/11 world from a Cold War focus to that of international terror and proliferation of weapons of mass destruction, it is critical that nations benefiting from our aid—especially those in Europe and Eurasia—continue to receive the necessary funding they need to develop stable and prosperous democracies. I strongly believe that America must stay the course in the Balkans and build upon the incredible success and peace that has been born there over the past several years.

We should not, it would seem to me, be naive in thinking that the ethnic and religious clashes that culminated in two wars have been erased. The recent assassination of the Serbian Prime Minister is a signal that long-term success in bringing about a peaceful transition in the Balkans is anything but guaranteed, and the time is not yet ripe to minimize America's commitment—financial or otherwise—in this region.

As U.S.-Russian relations have grown steadily since the Cold War, U.S. contributions to Russian civil society and its nascent democracy movement have brought stability to the Russian Republic, but there is more work to be done. The United States remains one of the major factors determining whether Russia stays on the path of reform, democratization and growth or whether it regresses back to a more dangerous form of governance that would threaten America and our strategic interests in the world.

That is why I believe funding in the Freedom Support Act for Russia must be fully maintained and provided for in the Fiscal Year 2004 budget. This money does not go to the Russian government, I think it is very important to note—which as we have recently learned may be allowing Russian companies to collaborate with rogue nations, such as Iraq and Iran—but rather, the money goes directly to NGOs, independent media, health programs and other programs that enforce the rule of law. Such programs have proven effective in bolstering democratization and economic growth in Russia, and now—more than ever—I would argue, the necessity of their continuation is abundantly clear.

Mr. Chairman, I concur essentially with all of what you said. I do not want to duplicate that effort, and I very much look forward to hearing from the two gentlemen.

[The prepared statement of Mr. Wexler follows:]

PREPARED STATEMENT OF THE HONORABLE ROBERT WEXLER, A REPRESENTATIVE IN
CONGRESS FROM THE STATE OF FLORIDA

Mr. Chairman, thank you for holding today's subcommittee hearing on U.S. assistance programs in Europe and Eurasia. While most of the world's attention has narrowed in on Iraq and the Middle East, I believe it is critically important to consider those aid programs that enhance the stability and prosperity of our allies and friends, especially those throughout Europe.

I would also like to thank today's witnesses, Mr. Thomas Adams, Acting Coordinator for U.S. Assistance to Europe and Eurasia in the Department of State, and Kent Hill, the Assistant Administrator for Europe and Eurasia at USAID. I am looking forward to hearing your insight as to the myriad of challenges and obstacles facing American assistance programs in Europe, in addition to your assessments of our nation's humanitarian investments in the region.

Mr. Chairman, as we re-position America's priorities in a post-9/11 world from a Cold-War focus to that of international terror and proliferation of weapons of mass destruction, it is critical that nations benefitting from our aid—especially those in Europe and Eurasia—continue to receive the necessary funding they need to develop stable and prosperous democracies. I strongly believe that America must stay the course in the Balkans and build upon the incredible success and peace that has been born there over the past several years.

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As U.S.-Russian relations have grown steadily since the Cold War, U.S. contributions to Russian civil society and its nascent democracy movement have brought stability to the Russian Republic, but there is more work to be done. The United States remains one of the major factors determining whether Russia stays on the path of reform, democratization and growth or whether it regresses back to a more dangerous form of governance that would threaten America and our strategic interests throughout the world.

This is why I believe that funding in the Freedom Support Act, (FSA), for Russia must be fully maintained and provided for in the fiscal year 2004 budget. This money does not go to the Russian government—which as we have recently learned may be allowing Russian companies to collaborate with rogue nations, such as Iraq and Iran—but rather, goes directly to NGOs, independent media, health programs and other programs that enforce the rule of law. Such programs have proven effective in bolstering democratization and economic growth in Russia, and now—more than ever—the necessity for their continuation is abundantly clear.

As America's foreign policy focus narrows in on Iraq, we cannot afford to neglect or cut necessary financial aid to regions throughout the world, such as the Balkans, Turkey, Eurasia and those Eastern European countries that have not experienced political and economic change following the end of the Cold War.

At this time, the United States has no choice but to continue investment in these regions, to ensure a brighter future, characterized by economic prosperity, stability and peace. We have already seen tremendous success in the Support for Eastern

Europe Democracy Act, or SEED programs, where several former Soviet-bloc nations from the Baltic states to Hungary have blossomed into democracies with transparent and liberal economies.

Despite this partial success, America must remain steadfast in our commitment. There are still nations marred with regressive and authoritarian regimes, ongoing ethnic conflicts and weak, corrupt economies that epitomize the fragility and political tumult that threatens the very foundation of these regions. Clearly, our job in Eastern Europe and Eurasia is not yet complete.

Mr. Chairman, stable, prosperous democracies in Europe and Eurasia are not new propositions, but they are born out of old challenges and commitments made following the second World War and the collapse of the Soviet Union. We have made incredible progress thus far; and for this, I wish to thank USAID and the State Department for their steadfast efforts and dedication to bring about peace, prosperity and stability to these vitally important states.

Mr. Hill and Mr. Adam's testimony provides a thorough and impressive snapshot of progress in the region and demonstrates rapid and successful transitions of nations that have recently emerged into fully developed democracies with market-oriented economies. I hope that those members of Congress and nay-sayers of U.S. foreign aid fully appreciate this success and realize that our military can win wars, but it is through programs such as those discussed today that the United States can truly win the peace, ensure global security and liberate politically, socially and economically repressed peoples throughout the world.

Mr. Chairman, while I understand that the President's budget reduces funding for foreign assistance programs in Europe and Eurasia, it is my most sincere hope that Congress will carefully review these cuts and allocate appropriate funding for the SEED and FSA programs in accordance with U.S. foreign policy interests and regional needs.

Mr. BEREUTER. Thank you very much, Mr. Wexler. In introducing our two witnesses today, Mr. Thomas Adams and Dr. Kent Hill, I want to reassure you that we are all interested in making these programs work as well as possible and this is meant to be a constructive, candid discussion to help Congress perform its oversight responsibilities.

Mr. Thomas Adams is the Acting Coordinator of U.S. Assistance in Europe and Eurasia in the Bureau of European and Eurasian Affairs of the Department of State. Mr. Adams has a remarkable career, notably, his service as Deputy Director and Director of the Serbian Sanctions Task Force and Deputy Coordinator for East European Assistance in the Bureau of European and Eurasian Affairs working primarily on the reconstruction of Bosnia and Kosovo.

Dr. Kent Hill, Assistant Administrator for Europe and Eurasia of the U.S. Agency for International Development, oversees USAID programs in 29 countries spanning the Balkans to Central Asia, including all countries of the former Soviet Union. Dr. Hill received his master's degree in Russian studies and a Ph.D. in history. He has published a number of books and written several articles and reviews on the subject of Russia and the former Soviet Union. Both of these gentlemen have distinguished academic backgrounds.

We are looking forward to your testimony. Your entire written statements will be a part of the record and I would like to give each of you 10 minutes to summarize the key points or findings of your testimony today. So, Mr. Adams, we are pleased to hear from you first.

**STATEMENT OF THE HONORABLE THOMAS ADAMS, ACTING
COORDINATOR, U.S. ASSISTANCE IN EUROPE AND EURASIA,
BUREAU OF EUROPEAN AND EURASIAN AFFAIRS, DEPART-
MENT OF STATE**

Mr. ADAMS. Thank you, Mr. Chairman, and thank you, Congressman Wexler, and thank you for inviting me before this Committee today, Mr. Chairman. I am particularly pleased because if we have been successful in these two programs, it is due in large measure to the close collaboration between the Executive and legislative branch.

We have had broad bipartisan support for over a decade from the Congress in these programs, in the programs you mentioned as well as the security and law enforcement programs, such as those begun under the operative threat reduction, or Nunn-Lugar legislation. This support has enabled us to make considerable progress, in my view, in expediting democracy and economic reform in the countries that emerged from communist rule and has allowed us to enhance U.S. international security by reducing threats from the former Warsaw Pact states.

I deeply appreciate the support and interest and ask that it continue through hearings like this, briefings, and trips to the field to see our assistance programs in action. I am also very pleased to have Dr. Hill sitting next to me today. Another reason for the success of our programs has been the fine work of dozens of U.S. government agencies, but no agency of the U.S. government has contributed more to this effort than USAID. Their mission directors and outstanding staff, both in Washington and the field, have implemented assistance programs in Europe and Eurasia in a highly professional and innovative manner. They continue to do so today, often under difficult conditions.

In your letter of invitation, sir, you asked that I give you my assessment of the current status of our assistance programs in Europe, particularly those carried out under the SEED Act and the Freedom Support Act. These two acts authorizing our assistance in Europe and Eurasia have been extraordinary tools for helping these nations make a historic transition. Both, in my view, continue to fulfill their legislative purpose, promoting democracy and a transition to a market economy in Central and Eastern Europe and the states of the former Soviet Union.

Programs under these acts, however, were intended to be transition programs. The wars in the Balkans, I think, delayed the transition, certainly in Southeast Europe, and we have also found that in the former Soviet Union these transitions were not as simple as they first appeared to some. But as you point out, we have made progress.

The northern-tier countries have largely graduated from significant U.S. assistance, and we have set graduation dates recently for two more countries, Croatia and Bulgaria. Romania should not be far behind these two. This will leave just Albania, Serbia, and Montenegro, Kosovo, Macedonia, and Bosnia and Herzegovina as recipients of decreasing amounts of U.S. SEED assistance. All of these societies continue to make progress, and yet each one still faces severe economic and democratic challenges.

We and other donors, particularly the European Union and the international financial institutions, will have to stay engaged to make sure that the region does not revert to the strife which characterized way too much of the past decade. Our goal is for all of the countries of Central Europe to join Euro-Atlantic institutions, such as NATO and the European Union, in order to make such strife impossible to repeat. We are getting there, but we are certainly not there yet. The recent tragic assassination of Serbian Prime Minister Gincich, which Mr. Wexler referred to, makes it clear that we need to persist and remain deeply engaged, and we will.

In the former Soviet Union, the record of the 12 countries, as you have said, is decidedly mixed. Russia has probably made the most progress, and this will allow us to shift some funding away from Russia toward the states of Central Asia. An interagency group is taking a first look at when we might be able to cease large-scale FSA programs in Russia.

In the wake of the tragic events of September 11, 2001, the countries of Central Asia assumed a much greater importance to the United States. There are two reasons for this. The first is that they have and continue to provide the U.S. with strong support as part of Operation Enduring Freedom. The second reason is that we see the same transformation for potential in this region that we are witnessing in Afghanistan. People of these countries are yearning for economic and political change, and we need to help them create more stable, democratic, and prosperous societies. We will benefit in so doing by having stronger partners to fight terrorism, poverty, intolerance.

The Administration requested and received significant amounts of supplemental funding in FY 2002 for these front-line states to address economic and social conditions which lead to such instability and also to help them combat critical challenges related to terrorism, weapons proliferation, narcotics, and other illicit trafficking. As a result, we have placed an increasing importance toward the countries of Central Asia, as reflected in our assistance program since September 11th.

Security and law-enforcement-assistance programs across Europe and Eurasia expanded in FY 2003, and in FY 2004 the President's budget requests continue this trend to help meet new challenges. Counterterrorism, nonproliferation, and law enforcement are global concerns and remained our highest priorities for assistance in Europe and Eurasia. Our FY 2004 request includes increased funding for antiterrorism training, export control and related border security, and international narcotics and law enforcement programs in Europe and Eurasia to enhance capabilities to prevent, deter, and detect proliferation of weapons of mass destruction, address drug trafficking, and counter transnational crime. The request includes funding for programs to prevent proliferation of weapons expertise as well.

We also are seeking increased funding to support regional stability and security concerns through our foreign military financing, international military education, and peace-keeping operation funds. These assistance programs support our critical Georgia train-and-equip efforts, our continuing efforts to build a lasting

peace in the Balkans, and help enhance interoperability to prepare NATO members and potential members to work together.

This office has placed new emphasis on coordinating security and law enforcement assistance in these countries. We want to make sure that all of the U.S. providers of law enforcement, nonproliferation, antihuman trafficking, antiterrorism, and customs assistance work together in order to maximize the benefits of our assistance. This requires coordination within the State Department on all foreign operations accounts, as well as with other U.S. agencies, and underscores the importance of an overall assistance coordinator, in my view.

I will stop here but just note that there is considerable detail about individual countries in my written statement. Thank you, Mr. Chairman.

[The prepared statement of Mr. Adams follows:]

PREPARED STATEMENT OF THE HONORABLE THOMAS ADAMS, ACTING COORDINATOR,
U.S. ASSISTANCE IN EUROPE AND EURASIA, BUREAU OF EUROPEAN AND EURASIAN
AFFAIRS, DEPARTMENT OF STATE

Thank you for inviting me to testify before your Committee today, Mr. Chairman. I am particularly pleased to be here because one of the primary reasons U.S. assistance programs for Europe and Eurasia have achieved such success has been the strong collaboration between the legislative and executive branches in this area.

For over a decade, the Support for East European Democracy (SEED) and FREEDOM Support Act (FSA) programs, as well as security and law enforcement programs such as those begun under the Cooperative Threat Reduction or "Nunn-Lugar" legislation, have enjoyed broad bipartisan support and interest. This support has enabled us to make considerable progress in expediting democracy and economic reform in the countries that emerged from communist rule, and enhancing U.S. and international security by reducing threats from the former Warsaw Pact arsenals. We deeply appreciate this support and interest and ask that it continue, through hearings like this, briefings and trips to the field to see U.S. assistance programs in action.

I am also pleased to have Kent Hill sitting next to me today. A second reason for the success of this program has been the fine work of dozens of U.S. Government agencies. No agency of Government has done more in this regard than USAID. Their mission directors and outstanding staff both in Washington and the field have implemented assistance programs in Europe and Eurasia in a highly professional and innovative manner. They continue to do so today, often under difficult conditions.

In your letter of invitation, you asked that I give you my assessment of the current status of our assistance programs in Europe, particularly those carried out under the Support for East European Democracy Act and the FREEDOM Support Act. These two Acts authorizing U.S. assistance in Europe and Eurasia have been extraordinary tools for helping these nations make a historic transition. Both, in my view, continue to fulfill their legislative purpose—promoting democracy and a transition to a market economy in Central and Eastern Europe and the states of the former Soviet Union. Programs carried out under these Acts were intended and have continued to be "transition" programs.

In Central Europe, eight of the fifteen countries have graduated from large-scale U.S. assistance under the SEED Act, and we have set graduation dates for two more countries: Croatia, and Bulgaria. Romania should not be far behind. This will leave just Albania, Serbia and Montenegro, Kosovo, Macedonia and Bosnia and Herzegovina as recipients of decreasing amounts of U.S. SEED assistance. All of these societies continue to make progress and yet each one still faces severe economic and democratic challenges. We, and other donors, particularly the European Union and the international financial institutions, will have to stay engaged to make sure that the region does not revert to the strife which characterized too much of the past decade. Our goal is for all of the countries of Central Europe to join Euro-Atlantic institutions such as NATO and the European Union in order to make such strife impossible to repeat. We are getting there, but are not there yet. The recent, tragic assassination of Serbian Prime Minister Djindjic makes it clear that we need to persist and remain deeply engaged. We will.

In the former Soviet Union, the record of the twelve countries is decidedly mixed. Russia has probably made the most progress, and this will allow us to shift some funding away from Russia towards the states of Central Asia. An inter-agency group is taking a first look at when we might be able to cease large-scale FSA programs in Russia.

In the wake of the tragic events of September 11, 2001, the countries of Central Asia assumed a much greater importance for the U.S. There are two reasons for this. The first is that they have and continue to provide the U.S. with strong support as part of Operation Enduring Freedom. The second reason is that we see the same potential for transformation in this region that we are witnessing in Afghanistan. The people of these countries are yearning for economic and political change. By helping them to create more stable, democratic and prosperous societies, we will benefit by having stronger partners to fight terrorism, poverty and intolerance.

The Administration requested and received supplemental funds in FY 2002 for the frontline states to address not only the economic and social conditions which lead to such instability, but also the critical challenges of combating terrorism, weapons proliferation, narcotics and other illicit trafficking. As a result, we have placed an increased importance towards the countries of Central Asia, as reflected in our assistance programs since September 11.

Our security and law enforcement assistance programs across Europe and Eurasia expanded in FY 2003, and the FY 2004 President's Budget Request continues this trend to help meet these new challenges. Counterterrorism, nonproliferation, and law enforcement are global concerns, and remain our highest priorities for assistance in Europe and Eurasia. Our FY 2004 request includes increased funding for Anti-terrorism Training, Export Control and Related Border Security and International Narcotics and Law Enforcement programs in Europe and Eurasia to enhance capabilities to prevent, deter and detect proliferation of weapons of mass destruction, address drug trafficking and counter transnational crime. The request includes funding for programs to prevent proliferation of weapons expertise. We also are seeking increased funding to support regional stability and security concerns through our Foreign Military Financing, International Military Education and Training and Peacekeeping Operations funds. These assistance programs support our critical Georgia Train and Equip (GTEP) efforts, our continuing efforts to build a lasting peace in the Balkans and help enhance interoperability to prepare NATO members and potential members to work together.

This office has placed new emphasis on coordinating security and law enforcement assistance in these countries. We want to make sure that all of the U.S. providers of law enforcement, non-proliferation, anti-human trafficking, anti-terrorism, and customs assistance work together in order to maximize the benefits of U.S. assistance. This requires coordination within the State Department on all foreign operations accounts as well as with other U.S. agencies and, underscores the importance of an overall assistance coordinator for Europe and Eurasia.

Let me now discuss our SEED and FSA programs in greater detail.

SUPPORT FOR EAST EUROPEAN DEMOCRACY

The Support for East European Democracy (SEED) Act of 1989 is the foundation of United States assistance to South Eastern Europe. Since 1989, the United States has built a strong record of assistance in promoting the transformation of the former communist regions of Eastern Europe. Our focus now is on the continuing needs of SEED recipients in South Eastern Europe—in Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania, Serbia and Montenegro, and Kosovo. For FY 2004, our SEED budget request is \$435 million. For FY 2003, Congress provided almost \$525 million.

Two remarkable events stand out in recent months: First, the historic invitation by NATO last November to seven more countries (Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia), previously part of the Warsaw Pact, to become members; second, eight SEED-recipient countries (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia) were invited to join the European Union (EU) and are expected to receive full membership in 2004.

We should all be gratified by the success of these countries in integrating with Euro-Atlantic institutions. American assistance helped substantially, and the commitment of the American people has provided much-needed encouragement along a difficult path.

We want to see the same success for South Eastern Europe. That region is now experiencing steady, if at times slow, progress in efforts to achieve democracy, market reform, overcome the destruction and dislocations of the Balkan wars, and meet the grave challenges of crime and poverty. The good news is all of the governments

in South Eastern Europe are democratically elected, are learning the lessons of democratic governance, and are experiencing economic growth. All seek eventual membership in Euro-Atlantic security and economic organizations and are coming to understand what is required to achieve this goal.

Through SEED assistance, we are supporting these transitions to democracy and market economies. We are working to hasten the day when the international military presence in Bosnia and Kosovo can be reduced and ultimately withdrawn.

Much of our focus now is on rule of law—helping the societies of South Eastern Europe fight global threats of corruption, organized crime, narcotics trafficking, trafficking in persons, and weapons proliferation. There is still more work to be done, especially in creating more effective justice sectors, strengthening law enforcement, and improving export control.

Post-conflict issues remain a necessary priority. This includes refugee returns and developing domestic capacities to put war criminals on trial.

For the long-term health of the region, we also see the need to promote economic growth, led by the private sector. Our assistance to economic reform, small and medium-size enterprise development, and privatization is an important part of this effort.

The Graduate Countries

Eight of the 15 countries covered by the SEED Act have progressed sufficiently in their democratic and free market transitions to graduate from SEED assistance: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia. Though graduates, they nevertheless continued to receive support from the SEED regional budget for several years. Now, all eight are either NATO members already or have been invited to join. All are scheduled to become EU members in 2004. Their graduate status now signals an end for SEED assistance and a greater role for the EU. Indeed, all will benefit from substantial and continuing EU support to help make their reforms more stable and their incorporation into Euro-Atlantic structures permanent. While SEED assistance will draw to a close, the U.S. will continue to support these countries by other mechanisms, through programs such as IMET and FMF.

At the request of the Congress, the Baltic States have continued to receive SEED Assistance in recent Fiscal Years. We continue to make good use of this funding for bilateral and regional programs focussing on the rule of law, social integration, anti-trafficking, public health programs, and business development. With the addition of FSA funds, some of these activities also include efforts to foster regional cooperation with northwest Russia and Kaliningrad.

Albania

Albania remains the poorest country in South Eastern Europe, and has not fully recovered from civil strife in 1997 or the effects of the Kosovo crisis in 1999. Its most pressing concerns include trafficking in arms, narcotics and persons, organized crime and corruption, international terrorism, and money laundering. Although the current government is fully cooperating to enact legislation to reform the economy, strengthen democracy, and combat crime, challenges remain in Albania's ability to implement reforms. SEED funding of an anticipated \$28 million annually in FY03 and FY04 targets justice sector reform and police professionalization, as well as decentralization and economic development. It will launch the establishment of an Albanian organized crime task force on illicit narcotics, trafficking, terrorism, and financial and economic crimes. Joint programs with the EU are under way to upgrade border control infrastructure in air and seaports and to computerize border guard and customs operations. Subsequent coordination will address the crippling energy shortage, inefficient capital markets, the judicial system, and the poor health care system.

Bosnia and Herzegovina

The SEED program in Bosnia and Herzegovina (BiH) of \$44 million in FY 2004 will continue to place heavy emphasis on the rule of law, and economic and democratic reforms. While much work remains to be done and resources are tight, we are seeing some success in these areas. BiH is beginning to turn the corner from focusing on post-war reconstruction to post-communism political and economic reform. State institutions are emerging. The State Court is operational and the State Border Service now controls all of BiH's international border crossings. A key U.S. objective will be to build the capacity of state law enforcement by supporting the State Information and Protection Service. Our support for BiH economic reforms focuses on developing open markets, legal reform of the business sector, and integrating BiH into Europe and the world economy. SEED-sponsored bank restructuring and deposit insurance programs have strengthened the domestic market. Our

assistance in preparing BiH for a state-level value added tax and a unified customs service are critical precursors for the country's admission to the European Union and accession to the World Trade Organization. Our programs facilitated the return of a record number of refugees and displaced persons in 2002. Continued assistance is planned to integrate them into the economic life of their communities via grants, loans and training. Our strong focus on reform of the criminal and civil law systems and enhancing indigenous legal standards provides an increasingly effective framework for combating terrorism, organized crime, corruption, and trafficking in persons.

Bulgaria

Despite setbacks in the mid-1990s, Bulgaria's lengthy transition to a market-oriented, democratic society has been remarkably steady, highlighted by the 2002 invitation to join NATO and its anticipated 2007 invitation to join the EU. With SEED funding planned to continue at \$28 million in FY 2004, our assistance is projected to strengthen institutions to combat still-pervasive corruption and organized crime, foster market reform, and assist Bulgaria to achieve graduation from U.S. assistance after FY 2006. SEED programs are enabling significant criminal justice sector reform and enhancement of police investigative capabilities. SEED programs are weighted to directly and indirectly improve civil security, strengthen border controls, increase transparency, de-centralize the government, involve civil society in all levels of decision-making, and implement reforms to the justice sector and court systems. Bulgaria has become an important U.S. ally in the war on terrorism and supports the U.S. in the Security Council and on Middle East, Afghanistan, and on other key issues.

Croatia

SEED programs provide essential funding to help Croatia strengthen democratic institutions, and carry out economic reforms in preparation for EU membership and graduation from SEED aid after FY 2006. SEED funds also supported strengthening of the State Attorney General's office, improving the justice sector's capacity to fight corruption, and streamlining criminal procedure. Specifically, planned U.S. assistance of \$25 million in FY 2004 focuses on good governance, civil society building and improved law enforcement. SEED-funded law enforcement training in Croatia succeeded in revamping police training and assisting the police internal affairs unit to combat corruption within the police force. SEED funds will also support activities designed to spur private sector growth in key sectors such as tourism, create employment, and reduce the income disparity between Croatia's urban centers and less developed and war-affected areas. Return and reintegration issues will receive continued U.S. attention, as will economic sustainability and community development activities.

Macedonia

SEED funding for FY 2004, projected at \$39 million, will continue to promote fulfillment of the 2001 framework peace agreement in order to strengthen stability and promote inter-ethnic reconciliation. The police reform programs are the nucleus of short and longer-term SEED assistance efforts to solidify security gains in a democratic environment, fostering police professionalization and expansion of a multi-ethnic community policing project. An innovative training program was also initiated to bring police investigators, prosecutors, and investigative judges together to aggressively combat trafficking in persons. SEED assistance will also target democratization, economic reform, employment generation, and municipal government reform.

Romania

SEED assistance to Romania of \$28 million in FY 2004 will focus on promoting economic reform and growth of the private sector, democratic governance, and improved health and social services. High-priority issues such as corruption, trafficking in persons, border security, and judicial reform receive special attention. SEED assistance has been instrumental in the drafting of numerous key laws, strengthening civil society, achieving extensive banking sector privatization, and improving the deplorable child welfare system. SEED funded programs have played a significant role in helping to turn Romania from one of the region's most politically and economically backward countries into one that has been invited to join NATO and can anticipate becoming an EU member in 2007. Romania has become an important U.S. ally in the war on terrorism and supports the U.S. on the Middle East, Afghanistan, Iraq, and on other key international issues.

Serbia and Montenegro

For Serbia and Montenegro (SAM), FY 2004 SEED assistance of \$113 million is designed to help consolidate the democratic and free market transformation launched after the October 2000 overthrow of Milosevic. It will support continued economic reform and foster community development and municipal democratization. In order to move ahead with integration into transatlantic structures, Serbia and Montenegro faces tough political challenges in addressing outstanding ICTY cooperation issues, reforming the military and security services, modernizing the justice sector, and instituting an effective nonproliferation regime. In addition, government reformers face growing popular fatigue in this difficult transition, touched by tragedy with the recent assassination of the Prime Minister, and need robust U.S. support for continued progress on economic and political changes. In conjunction with pressing for full cooperation with ICTY, we are launching efforts to assist Serbia in prosecuting lower-level alleged war criminals through special courts to deal with war criminals and organized crime. Earlier U.S. assistance contributed to the restoration of stability through free elections in violence-racked southern Serbia along the boundary with Kosovo.

With the new union of Serbia and Montenegro, Montenegrin authorities can set aside status questions and focus on implementing needed economic and political reforms and improving the standard of living. SEED-funded training and technical assistance will help Montenegro build the capacity to move toward integration with the European Union. We have successfully expanded into Montenegro several programs already proven in Serbia, such as community development and democratization at the local level.

Kosovo

SEED funds, \$79 million for FY 2004, significantly contribute to Kosovo's stability and economic development. Our assistance programs focus on creating conditions that will allow for reduction and ultimately withdrawal of NATO-led (including U.S.) troops. Specifically, we will continue to support the UNMIK International Police Force, and to train and equip the Kosovo Police Service (KPS) and the Kosovo Protection Corps. Over 5500 KPS officers have completed basic training at the Kosovo Police Service School, a significant portion of them women and minorities, and another 1200 will graduate during 2003. In 2002, Kosovo experienced a 50% decrease in the murder rate for the second year in a row, due in large part to the hard work of the international and local police officers. Institution-building and democracy programs will remain critical components of SEED funding and will continue to focus on advancing the rule of law, developing opportunities for women in politics, business, and civil society. Our economic recovery programs have helped Kosovo to implement sound budget and tax policy frameworks that have dramatically increased domestic revenue. We will continue to provide advisory services to Kosovo's self-governing institutions and promote private sector development and increased employment opportunities. Kosovo's security and political climate is improving such that refugee and IDP returns can occur with increasing frequency and greater success. This year we will provide SEED assistance for sustainable return and reintegration activities.

Education and Cultural Affairs

USG-sponsored exchange programs are an integral component of the effort to promote democratization and market reform in the countries of Southeast Europe and Eurasia. Our embassies in the region and many of us here in Washington are convinced that these exchanges have a profoundly positive impact on values and behavior. Exchange programs that promote democratic reform, growth of civil society, expansion of independent media, and accountability to the rule of law will become an increasingly important tool in these countries as SEED funds decline. In FY 2004, the administration plans to shift funding for exchanges in our region from the SEED and FSA accounts to the Educational and Cultural Exchange (ECE) account under the CJS appropriation, in order to achieve better worldwide coordination among ECA activities. Nonetheless, regional coordination among ECA programs and our SEED and FSA program priorities remains important. As we make this transition, our goal is to integrate the strengths of both SEED-funded and traditional programs of the Educational and Cultural Affairs (ECA) Bureau. A key aspect of this approach will be to maintain flexibility and mission responsiveness in programming, and to ensure that the programs match resources and policies in the region. The European and ECA Bureaus are working on a joint strategy to ensure that high-quality exchanges on relevant policy issues for our embassies will continue to be supported in the ECE account.

Stability Pact

The Stability Pact for South Eastern Europe is a multilateral political initiative to encourage and strengthen cooperation among the countries of Southeast Europe (SEE) and to streamline efforts to assist them in preparing for Euro-Atlantic integration. The Stability Pact is based on the principle that conflict prevention and peace building can be successful only if three key sectors are addressed: (I) promotion of sustainable democratic systems, (II) promotion of economic and social well-being, and (III) creation of a secure environment. The Stability Pact has dedicated three "Working Tables" to correspond to these three sectors. With relatively little U.S. funding (approximately \$15 million through FY 2003), the U.S. has been able to influence the development and implementation of initiatives funded at an overall level of approximately \$3 billion in such areas as redirecting the focus of the Investment Compact Initiative, guiding fundamental principles for the establishment of an independent and private media, pushing forward the Sava River Initiative, and developing European based and funded programs in anti-trafficking and anti-corruption. The Stability Pact has six core areas of activity for 2003–2004: 1) Local Democracy and Cross-Border Cooperation, 2) Media, 3) Infrastructure and Energy, 4) Trade and Investment, 5) Stabilizing Population, and 6) Fighting Organized Crime. In addition, the Stability Pact has identified confidence- and security-building to be an overriding issue. U.S. support for the Stability Pact will focus primarily on initiatives related to the above core areas and enable us to continue influencing policies and financial support in those most important to us. At every opportunity, the U.S. stresses the importance of increased regional ownership of Pact initiatives and the need to focus on concrete results. In addition, the U.S. uses its involvement in the Stability Pact as an avenue for influencing Southeast Europe's eventual transition into the EU through regular interaction with European Commission and EU officials.

In conclusion, SEED assistance has unquestionably played an important role in the dramatic progress achieved in Central and Eastern Europe since 1989. The Congress and the American people can take satisfaction in the fact that this assistance program is doing what it set out to do. With several more years of steady funding, one should be able to say that it has been a job well done.

FREEDOM SUPPORT ACT

Mr. Chairman, let me now turn to a discussion of the FREEDOM Support Act, under which Congress annually appropriates the bulk of U.S. Government assistance to the independent states that once constituted the Soviet Union. We now use the convenient shorthand term "Eurasia" to refer to this region, though many of the states within it prefer to think of themselves as "European." I recognize that the five Central Asian states fall outside the jurisdiction of this Subcommittee; nevertheless, in my statement I will address our assistance to those countries as well since they constitute an important element of the overall U.S. Government effort under the FREEDOM Support Act.

In the past, we have tended to set up a false dichotomy between "hard" assistance—military hardware and training—and "soft" assistance—promoting democracy and free market economic systems. That distinction is less relevant, particularly since September 11. Our FREEDOM Support Act programs work throughout the volatile region of Eurasia to bolster security and stability by opening political systems to independent voices and creating economic opportunity, while cooperating with governments to strengthen border security and interdict the flow of illicit trafficking in humans and narcotics. FREEDOM Support Act assistance is a critical element of U.S. Government efforts to work with the countries of Eurasia, particularly the key front line states in Central Asia, in the global war against terrorism.

I'd like to begin today by recalling the circumstances that led to the enactment of the FREEDOM Support Act (FSA) because I think historical perspective can help give us a deeper understanding of what we have accomplished so far and what choices we have for the future. Just over a decade ago, roughly ten months after the collapse of the Soviet Union, Congress passed the FSA and President George H. W. Bush signed it into law. This was at a time of great uncertainty about the future course in this critical part of the world.

The dissolution of the Soviet Union had been followed by nearly total economic breakdown. Democratic and non-governmental organizations and independent civil society groups were virtually non-existent. The media was an organ of the state. Years of neglect and deterioration under Communism had left an outdated infrastructure and tremendous social and economic needs among the population.

There were dire predictions at that time about widespread starvation and suffering that would result from the economic collapse and the inability of new and

inexperienced governments to cope with the crisis. There were equally dire predictions that chaos and violence would accompany the Soviet breakup.

With the perspective of a decade, we can see that these worst case scenarios fortunately did not play out. Thanks to an intensive assistance effort, international in scope but led by the United States, a humanitarian catastrophe was averted.

In the early 1990's there were common assumptions about market and democratic transition for the states of the former Soviet Union. If the independent states could get "over the hump" of the immediate dislocation and avoid civil war, it was thought they would move relatively rapidly toward market democracy—with a little help and advice from the United States. This optimistic outlook was heavily influenced by the early reform success of countries like Poland, Hungary and the Czech Republic, which were then well along the road to developing democratic political systems and market-based economies. The FREEDOM Support Act was thus assumed to be a short-term, transitional set of programs that would be phased out in five or six years, once these states had been set firmly on the path of reform.

A decade later, we can now see clearly that these initial assumptions were flawed. The Soviet successor states have faced more difficult transitions than initially anticipated both due to their long tenure under Soviet rule and their lack of historical experience with democratic and market systems. Progress on political and economic reform has been uneven across the region, with Russia leading the way in both aspects of reform, although its performance remains mixed and uneven. Some countries have made great initial progress in both democratic and market reform, then backslid as the decade wore on. Corruption is a drag on reform. Across the region, progress was slower and less steady than we had initially expected. So our timelines and programs had to be adjusted accordingly to take this slower, uneven movement into account, while still pushing hard for progress.

Nonetheless, we have seen significant progress over these ten years in all but two countries of the region. And that progress is why we can now begin to contemplate—and even in one case to make a concrete plan for—phasing out FSA assistance for the former Soviet states.

I will return to the topic of phasing out FSA assistance when I discuss our FY 2004 plans for specific countries. Before turning to a country by country analysis, however, let me assess in very broad terms what we have accomplished over the past decade, and how the rationale and objectives for our assistance have evolved to meet changing circumstances over that time.

First, with a few glaring exceptions, most of the countries of the region are firmly on the path toward market-oriented economies and greater integration with the world economy. Turkmenistan and Belarus have failed to undertake even the most basic market reforms; Uzbekistan has for the past year been struggling to move forward on economic reform and remains engaged in an active dialogue with the IMF that we hope will lead to further steps in the right direction. The remaining Eurasian states have implemented budget and fiscal reform, privatized state assets, and nurtured private sector development. While progress has been uneven, the likelihood of a return to socialist economics is minimal to non-existent. Market reform has become, in a very real sense, irreversible. This was one of the fundamental goals of the FREEDOM Support Act. I believe it has, broadly speaking, been achieved. We can say that U.S. assistance at both the government and grassroots level has been instrumental in this process.

Our governmental-level assistance has taken various forms in different countries, but has generally included provision of expert advice on fiscal, tax, and banking reform, as well as targeted help in privatizing and restructuring key sectors of the economy, such as energy and agriculture.

This governmental technical assistance has been complemented by programs aimed at fostering the emergence of private small and medium enterprises that simply did not exist under the Soviet system. Such enterprises form the lifeblood of any growing economy and are the best generator of employment and opportunity. In the post-Soviet countries, small and medium enterprise requires extra help. U.S. assistance has taken the form of basic business training in accounting, management and marketing, short-term consulting (often by American business volunteers), and provision of micro and small credit facilities. It should be noted that assistance to post-Soviet entrepreneurs has a political as well as economic significance: business people form the backbone of a nascent middle class in these countries, a group that will be a force for more transparent and accountable governance, as well as a source of social stability.

The picture on democratic reform is decidedly less rosy. Progress in terms of free and fair elections, open and accountable governments, removal of restrictions on free speech and association, and other elements of democracy has been halting and uneven. Noticeable backsliding has occurred in recent years in some countries. While

I do not diminish these problems, I believe that we have achieved tremendous accomplishments in this sphere as well over the past decade, and have sown the seeds for future positive change.

One of our best mechanisms to foster fundamental change is our program of professional and educational exchanges. Over the past decade, FREEDOM Support Act exchange programs have brought slightly over 100,000 business people, journalists, students, and professors to the United States to see for themselves how free people prosper and deal with challenges common to all countries. Particularly important are the FLEX and Muskie programs, which bring high school and university students to the U.S. for up to two years to gain an American education and live the American experience. The payoff of these programs is difficult to quantify and lies in the future, but as one Ambassador told me, the young exchange participants are “little revolutionaries” because they are literally change agents in their respective countries.

FREEDOM Support Act funds have supported the development and strengthening of civil society organizations and non-governmental organizations. These too serve as vital change agents through their efforts to mobilize community resources, hold governments accountable to the people, and demonstrate that citizens can make a difference when they group together for the common good. FSA also has supported development of political parties, helped to strengthen legislatures as a counterweight to powerful executive branches of government, and worked to create or bolster judicial independence—all key components of effective democracy. We have worked with regional and local governments as well as NGOs and civil society to diversity and decentralize authority and power. Through FSA, we have worked to strengthen the independent media and establish Internet centers for students, journalists and alumni of our exchange programs, thereby ending the official monopoly on news and information.

Turning to our plans for FREEDOM Support Act programs for FY 2004, the largest changes in the FSA budget request are related to our country's intensified engagement with Central Asia as a result of the September 11 attacks on our country and the global war against terrorism. Significant increases over FY 2003 levels for Uzbekistan, Tajikistan, and the Kyrgyz Republic will support economic development in conflict-prone areas, efforts to open political space by strengthening democratic institutions and grassroots organizations and programs aimed at improving Central Asia's badly deteriorating social infrastructure, especially in the health and education sectors. Development of small and medium enterprises and efforts to fight infectious diseases, especially HIV/AIDS and tuberculosis, will remain priorities across the region.

The FY 2004 requests for Russia and Ukraine are lower than the FY 2003 funding levels, reflecting in part a shift of resources to the Central Asian states. The lower request level also recognizes, particularly for Russia, progress already achieved on reform, especially economic reform. We are developing a strategy to phase out FSA assistance to Russia over the next several years that will seek to ensure a legacy of sustainable institutions to support civil society and democratic institutions. Our programs in Russia, Ukraine and Armenia have been the subject of intensive interagency reviews over the past two years, and the recommendations resulting from those reviews will help set priorities as we absorb funding reductions. Finally, I would note that the lower overall FY 2004 request for FREEDOM Support Act assistance reflects the shift of roughly \$110 million in funding for educational and professional exchanges from FSA to the ECE account in the Commerce, Justice, State appropriation. Educational and professional exchanges will continue to be a key element of our assistance programs in Eurasia.

Throughout Eurasia, FSA programs will emphasize three priorities in FY 2004:

- Conflict prevention through community-level projects to improve living conditions in volatile regions;
- diversification and decentralization of power—by strengthening NGOs, independent media, local governments and the judicial branch; and
- bolstering the rule of law—by fighting corruption and improving the effectiveness of law enforcement systems.

Armenia

Our request for Armenia is \$49.5 million. Congressional earmarks historically have been significantly higher than Administration requests. Nevertheless, given Armenia's size and relative strategic importance, we believe this to be an appropriate level of assistance. Armenia has made significant progress in creating the necessary legal and institutional structure for a market-based democracy. The key now is consistent implementation of reform laws. The requested level will permit

us to assist the Armenian government in this process, with a focus on measures to combat corruption. It will allow continuation of efforts to open Armenia to the outside world through exchanges and Internet access, and to support the World Bank-approved Poverty Reduction Strategy.

Among the highlights of the FY 2002 FSA program, we note:

Earthquake Zone Recovery Program: which, when completed in 2004, will re-house over 6,000 families in the area impacted by the 1988 earthquake through the issuance of housing certificates and housing improvement grants.

Agricultural reform: USDA's Marketing Assistance Program and USAID's agricultural SME program that provide seed multiplication and micro-credit programs with proceeds from USDA monetization programs.

School Connectivity Program: 111 schools with operating sites with computers in schools, and plans to complete a 300 school network.

Azerbaijan

Our request for Azerbaijan is \$41.5 million. Following President Bush's waiver of Section 907 in January 2002, the range of potential assistance to Azerbaijan has greatly expanded. As an Islamic country with significant oil reserves, a border with Iran, and a strong propensity to support US interests in the region, Azerbaijan is strategically significant while at the same time small enough for our assistance to really make a difference. While continuing to work with the private sector and NGOs in FY 2004, we expect to be able to continue expanding our technical assistance to law enforcement, support for domestic energy reform, and economic diversification projects, especially in the agricultural sector, to help Azerbaijan avoid over dependence on oil.

Among the highlights of the FY 2002 FSA program, we note:

Post-907 waiver programs: working with prosecutors, judges and government on law enforcement, rule of law, and forensics; IMET and FMF programs; banking and tax reform; and working with Customs and border guards to monitor and stop the transit of dangerous people and materials.

Maritime border support: provided much needed communications and other equipment, maritime patrol vessels, and technical assistance to the Coast Guard.

Belarus

The Administration's FY 2004 request for Belarus is \$8 million. As long as President Lukashenko remains in power, there is little hope for genuine economic or political reform in Belarus. Assuming no regime change over the next year, our programs will continue to be aimed at keeping hope alive by supporting embattled civil society and opposition groups and the few remaining sources of independent media (some of which are based across the border in Lithuania and Poland). We will also continue bringing young Belarussians to the U.S. and third countries on exchange and training programs, with the expectation that when regime change occurs, a new, pro-western generation of leaders will assume power.

Among the highlights of the FY 2002 FSA program, we note:

Support for Independent Media Development: Working with print and electronic media, we seek to increase the quality and quantity of information available to citizens, and thus to counteract government control and manipulation of information.

Civil Society Development Programs: Eight rural clubs throughout Belarus provide community members with access to information, technical instruction, and a forum to discuss issues of local importance. The number of rural clubs in Belarus will be expanded in both FY 2003 and FY 2004. Training for the rural clubs focuses on advocacy, legal forms of civic activism, and legal clinic development. In the framework of the Rural Club model, the Rural Talk Show Project also started at three local TV stations—a format completely new for the participating stations.

Georgia

The Administration's FY 2004 request for Georgia is \$75 million. The U.S. has important strategic interests in Georgia; given its position as a transit point for Caspian energy and its border with Chechnya, which has attracted Chechen and international terrorist elements into Georgia that the U.S. is assisting Georgia to expel. The nearly level funding requested for FY 2004 will allow us to maintain our two biggest assistance priorities: enhancing the capacity of Georgia's border guards; and bolstering Georgia's energy independence by improving the management and revenue collecting ability of the domestic energy system. Programs supporting small business and the agricultural sector will continue as well. With presidential elections scheduled for 2005 to choose President Shevardnadze's successor, particular emphasis will be given to training and technical assistance to political parties, advocacy NGOs, and electoral commissions.

Among the highlights of the FY 2002 FSA program, we note:

Public policy and educational organizations: In June 2002, the Georgian Foundation for Strategic and International Studies (GFSIS) graduated its first class of 17 mid-level Georgian bureaucrats trained in policy analysis. Each of the graduates was given a promotion in his/her office as a result of the training; GFSIS scholars publish cutting-edge policy papers.

Georgia Border Security and Law Enforcement (GBSLE): GBSLE assistance has continued to help Georgia build the capabilities to control its borders, improve proficiency and professionalism of the Customs, Border Guards and other security agencies by providing training and technical assistance and the tools to deter, detect, and interdict illicit trafficking including patrol vessels, aircraft, vehicles, navigation, communication and radar equipment, and infrastructure enhancements. A new Red Bridge border guard station provided with GBSLE assistance opened in March 2003.

Georgia Train and Equip Program (GTEP): GTEP assistance combined a range of assistance sources, including FSA assistance, directed at helping Georgia control its borders and combat terrorism. Under GTEP, U.S. assistance is providing training and equipment to help prepare four combat infantry battalions and one mechanized company team to defend Georgia against potential terrorist threats. GTEP training included Border Guards, Ministry of Defense and other security forces and graduated its first class of trained infantry in December 2002.

Kazakhstan

The Administration's FY 2004 request for Kazakhstan is \$32 million. Kazakhstan is set to become by far the richest country in Central Asia due to its oil assets. Because Kazakhstan already has in place—largely due to past U.S. government technical assistance—a sophisticated, reform-oriented economic system, current economic reform programs can be phased out over the next several years. At the same time, emphasis will be placed on programs to address recent backsliding on democracy and human rights through support for an open and competitive political system, NGOs and independent media outlets. In addition, an increasing proportion of the budget will go towards expanding cooperative efforts with Kazakh law enforcement and security officials to address proliferation and other security threats at the border.

Among the highlights of the FY 2002 FSA program, we note:

Houston Initiative: The U.S. Government is supporting a variety of economic reform, technical assistance, and microcredit programs to support economic diversification, small and medium enterprise growth, and the expansion of a prosperous middle class.

Nuclear Safety: The U.S. Government is working with Kazakhstan to conduct an irreversible shutdown of the BN-350 nuclear reactor by providing technical assistance and equipment to place it in an environmentally, industrially and radiologically safe condition. The program is now focused on evaluating different options for BN-350 spent fuel transportation and storage.

Corporate Good Governance: In FY 2002, the U.S. Government, in consultation with the Kazakhstani and American public and private sectors, NGOs and the OSCE launched a business ethics program to promote good business practices that led to an agreement to develop basic guidelines for codes of business conduct in Kazakhstan.

Kyrgyz Republic

The Administration's request for the Kyrgyz Republic is \$40 million. The relatively large increase being requested reflects the Kyrgyz Republic's strategic importance (it now hosts a U.S. air base), as well as its reform potential. While economic and political reforms are not yet firmly entrenched, the Kyrgyz Republic is further along in many areas than its Central Asian neighbors. Poor economic and social conditions in the Fergana Valley have contributed to the appeal of extremist Islam. Additional assistance resources funds will be deployed there in several ways: to support community-based infrastructure projects in areas where potential for recruitment by extremist Islamic groups is highest; to expand employment generation efforts in the Fergana Valley, through marketing assistance and credit for agricultural processors; to maintain a high level of student and professional exchanges; and to further expand highly successful pilot reforms in education (merit-based testing for scholarships—the first such program in the former Soviet Union) and in health (an insurance co-payment system, and primary care physician training).

Among the highlights of the FY 2002 FSA program, we note:

Democracy Assistance: The Kyrgyz Republic boasts the most vibrant civil society in Central Asia, thanks in part to USG support for civil society advocacy campaigns and institutional development. The U.S. also provides support the Parliament to

help it serve as a counterweight to the executive and increase transparency—the latter achieved through the institution of public hearings.

Economic Reform and Development: The USG is providing business skills training and conducting Russian market appraisals in support of the Osh Agro-Processing Initiative. Micro-lending programs have helped more than 170,000 clients, primarily poor women, obtain capital to improve their businesses.

American University of Central Asia (AUCA): The USG supports the AUCA as a locus for U.S.-standard higher education based on merit, critical thinking, and open discussion. AUCA enrolls approximately 1000 students from across Eurasia and elsewhere in Asia and offers eleven different undergraduate majors.

Primary Health Care Programs: In collaboration with the World Bank, the U.S. Government is developing models of primary health care across the Kyrgyz Republic, emphasizing community involvement and higher-quality, better-financed care. People are able to select their own doctors and early results from the introduction of hospital co-payments in two regions indicate that people who are hospitalized now pay less in co-payments than they previously paid under-the-table.

Moldova

The Administration's request for Moldova is \$23 million. Moldova has an uneven record on democratic reform, although it has made greater strides on economic reform. It remains one of the region's poorest countries. Our assistance in FY 2004 will continue to focus on post-privatization assistance to the agricultural sector. Democracy programs will focus on efforts to expose and deal with corruption, which remains a serious impediment to economic growth. Border security and law enforcement efforts will be increased to address a serious problem of trafficking in persons. Student and professional exchanges will be maintained. FSA funding reductions will be absorbed by starting a phase out of economic reform technical assistance.

Among the highlights of the FY 2002 FSA program, we note:

Private Farmers Assistance (PFAP) and Commercialization Programs (PFCP): The PFAP provides assistance to improve the policy environment for private farmers and helped draft fifty (of which 24 were enacted) laws, regulations and other normative acts on the development of private agricultural enterprises. The PFCP assists private farmers with technical assistance as well as links to credit, essential inputs, and markets.

Local Government Reform Project (LGRP): The LGRP added 23 new local government partners in FY 2002 and helped them develop participatory community management practices, including improving community fiscal management that allowed local governments meet municipal needs identified by citizens.

Russia

The Administration's request for Russia is \$73 million. In recognition of the progress Russia has made in its transition towards market-based democracy, the FY 2004 funding request is significantly lower than in previous years. We are developing a strategy to phase out FSA assistance over the next several years. This strategy will seek to ensure a legacy of sustainable institutions to continue support for civil society and democratic development. In FY 2004, we will continue to provide badly needed support to key change agents who are striving to build democracy and a modern market economy in Russia: civil society groups, including independent media; and the entrepreneurial sector. In addition, we plan to continue helping Russia address serious health concerns, such as increased drug use, and infectious diseases like HIV/AIDS and TB that directly threaten U.S. interests due to their cross-border nature. It also should be stressed that assistance to address serious health threats and to support long-term democratic development may continue even after the phase out of FSA assistance is completed.

Among the highlights of the FY 2002 FSA program, we note:

Judicial Reform: With USG assistance, Russia reinstated its criminal jury trial system, which was instituted in the mid-nineteenth century, but came to an abrupt halt after the 1917 Revolution. In so doing, we helped Russia re-balance the criminal justice system, which had been heavily weighted to the prosecution, lessen the chances for political control of criminal judicial matters and encourage the criminal bar to prepare their cases to the high level necessary for presentation to a jury.

Small and Medium Enterprise Development: USG assistance helped create institutions that enabled small-to-medium sized enterprises to obtain business loans and to grow their businesses. The SME sector is now the most vital of the Russian economy, accounting for most new jobs created.

Money Laundering and Counter Terrorism: With USG assistance, Russia tightened up its money laundering controls and joined FATF.

Tajikistan

The Administration's request for Tajikistan is \$35 million. Tajikistan is a key frontline Islamic supporter of Operation Enduring Freedom, and its stability and success in transitioning to market-based democracy are key to a successful postwar reconstruction in Afghanistan. Tajikistan is the only Central Asian Republic that has integrated an Islamic party into the ruling Government coalition. A deeply impoverished country, still suffering the effects of a five-year civil war in the 1990's, Tajikistan can effectively utilize substantial aid to improve infrastructure and help rebuild its agricultural sector. Additional funds in FY 2004 will support a broadening of conflict prevention programs that include small community-based infrastructure grants. These activities will continue to be targeted in areas where potential for recruitment by extremist Islamic groups is highest. There will also be increased technical assistance to support structural reform efforts by the government, which currently lacks implementation capacity. We will also increase the level of exchanges to help break through the country's isolation. Finally, we will continue supporting drug interdiction efforts through an effective UN program aimed at stopping illicit drugs trafficked from Afghanistan.

FY 2002 assistance highlights include:

Political Party Development: Tajikistan's political environment is the most open in Central Asia. The USG is helping political parties better mobilize their supporters through improved communication, membership development, recruitment strategies, and constituent relations.

Humanitarian Assistance: The USG provides substantial humanitarian assistance to Tajikistan in the form of medical supplies, food aid, seeds, and fertilizers.

Conflict Mitigation Activities: The USG provides assistance to vulnerable and at-risk communities in the Ferghana Valley to overcome sources of conflict through participation in community development programs aimed largely at ameliorating local infrastructure deficiencies identified by citizens in cooperation with local authorities.

Turkmenistan

The Administration's request for Turkmenistan is \$8 million. Given its strategic location bordering Afghanistan and Iran and its support in OEF, Turkmenistan requires sufficient assistance in FY 2004 for us to maintain cooperation on border security and law enforcement. Nevertheless, this country shows no signs of moving down the reform path, nor is it likely to do so until the current President is no longer in office. Funding will support the few, brave elements of civil society (working in service-oriented NGOs), and will keep open the opportunity for young Turkmen to receive an education in the U.S. through our exchange programs, and at the American University of Kyrgyzstan through a scholarship program launched in FY03.

Among the highlights of the FY 2002 FSA program, we note:

Exchange Programs: U.S. Government assistance in Turkmenistan focuses on reaching the next generation of Turkmen leaders. Exchange programs and alumni activities strengthen democracy, tolerance, and the development of civil society.

Civil Society Development: The NGO development program promotes citizen participation in local decision-making and provides much-needed support for the struggling NGO community in the hostile environment of Turkmenistan.

Border Security: The U.S. Government is providing assistance for Turkmenistan to strengthen border security, particularly along the long porous border with Afghanistan. The goal is to help Turkmenistan develop its export control and border security capabilities, to prevent the transit of weapons of mass destruction, weapons technology and other illicit weapons trafficking across its borders.

Ukraine

The Administration's request for Ukraine is \$94 million. Ukraine remains a strategically important country in the region. Despite recent conflicts with the Ukrainian government—especially President Kuchma—objectively speaking, Ukraine has made substantial, though incomplete, reform progress over the past two years, in such areas as tax policy, treatment of small businesses, judicial reform and land privatization. In recognition of the progress achieved and of the need to devote greater resources to the Central Asian front-line states, the Administration's request for Ukraine is significantly lower than in previous years. There remains much our aid can do in these and other areas, depending on the GOU's commitment. 2004 is also the year of the next presidential election: FSA funding will support an all-out effort to ensure his successor is chosen freely and fairly. The large nuclear safety program will continue to phase down, as hardware installation projects are completed, and the focus moves to training.

Among the highlights of the FY 2002 FSA program, we note:

Independent Media Programs: Ukraine's non-state media continued to face increasing difficulties in FY 2002. USG independent media programs continued to help defend freedom of the press through professional skills and development, business management training, support for trade associations, and legal counsel.

Agricultural Reform Programs: By the end of 2002, through a joint USG effort with the Government of Ukraine, the number of private land titles issued increased to 2.7 million, from 1.5 million in 2001, although 4 million titles have yet to be issued. The Louisiana State University extension program has trained farmers in Vinnystia, Khmelnytsky and Cherkasy in improved production technologies. Significant policy initiatives in 2002, largely developed and encouraged with USG assistance, included passage of enabling legislation for a grain warehouse receipt system, introduction of legislation to establish a national extension service, and adoption of regulations which created a commercial crop insurance program.

Local Government and Municipal Development Programs: With USG assistance, 67 cities have increased the transparency of government operations by using competitive bidding for services and assets. USG assistance has supported the growth of the Association of Ukrainian Cities (AUC), whose membership now numbers 385 municipalities. The AUC successfully lobbied for the passage of a new Budget Code that provides local governments with more revenue stability and fiscal autonomy.

Anti-Trafficking Programs: USG anti-trafficking programs work with Ukrainian Women's NGOs to provide job skills training, legal consulting services, and a public education campaign through Trafficking Prevention Centers, which, together with local NGOs that received grants, assisted 15,743 women through job training in FY 2002. There are currently seven centers in Ukraine, in Dnipropetrovsk, Donetsk, Kherson, Rivne, Chernivtsi and Zhytomyr. Additional activities include support for a hotline for returned victims, a victim assistance fund, and a joint project with the Education Ministry to develop a school curriculum on the trafficking issue.

Uzbekistan

In recognition of Uzbekistan's new strategic importance (with its critical role in Operation Enduring Freedom and the largest American military presence in the region) and its potential impact on the rest of Central Asia, our FY 2004 funding request of \$42 million for Uzbekistan represents a significant increase over FY 2003. Its size, population, and military power mean that Uzbekistan's internal developments have a disproportionate impact on the rest of Central Asia. Increased FSA funding will allow us to maintain funding for irrigation and drinking water projects, programs to combat infectious disease and to develop primary health care in rural areas, and other local infrastructure projects begun in 2002. These activities will continue to be targeted in regions where potential for recruitment by extremist Islamic groups is highest. We will also expand support for small business through training and credit programs, and open up Uzbekistan to the outside world by greatly increasing student and professional exchanges, and Internet connectivity through school-based and public access sites. We will continue work to strengthen civil society and the independent media.

Among the highlights of the FY 2002 FSA program, we note:

Security Assistance: U.S. Government programs seek to enhance Uzbekistan's capabilities to prevent proliferation of weapons, weapons technology and expertise, and complement counter-terrorism assistance. This includes programs to continue the demilitarization of the former chemical weapons facility in Nukus and enhance airpatrol and interdiction capabilities of Uzbekistan's Ministry of Defense and Border Guards.

Economic Development: The U.S. Government is providing business education and training to SMEs and some microcredit in the Ferghana Valley. TDA grants for feasibility studies help American businesses compete for projects in the rail, information technology, fertilizer, power, and water resources sectors, as well as assistance in small and medium enterprise development. Treasury advisors provide much-needed advice on macro economic policy and reform.

Water Management: The U.S. Government is helping Uzbekistan more effectively manage its water resources. Programs include establishment of water users associations, water saving demonstration models for farmers, improved water district management, procurement of equipment needed to clean the canals and maintain the infrastructure, and potable water in Karakalpakstan near the Aral Sea.

Health Care: U.S. Government programs address tuberculosis control, blood safety, HIV/AIDS surveillance, drug use, care of pregnant women and their newborns and educational programs. The health care reform program seeks to create creating a higher quality, user-friendly, more cost-effective primary health care system in select regions.

Regional

The Administration is requesting \$55 million in regional funds to support activities that involve individual participants or organizations from more than one Eurasian country, who are working together toward a common goal or benefiting from one another's experience. This includes cross-border efforts, such as water resource management projects in Central Asia. Regional funds also support programs, like Trade and Development Agency grants for investment-related feasibility studies, which respond to demand from the private sector that cannot be attributed in advance to a single country. These funds also support confidence building measures and other initiatives aimed at resolving conflicts in the region, such as the Armenian-Azeri dispute over Nagorno-Karabakh.

SECURITY AND LAW ENFORCEMENT

I would now like to turn to Security and Law Enforcement Assistance programs.

Our security and law enforcement assistance to Europe and Eurasia continues to be a significant portion of our total assistance programs, encompassing threat reduction, nonproliferation, anti-terrorism, law enforcement and regional security assistance programs.

Across Europe and Eurasia in the security and law enforcement area, we are working hard to ensure our programs are integrated into a coherent security assistance strategy for each country; to prevent duplication and leverage U.S. assistance program resources regardless of the source of funding. Given the range of authorities, programs and funding sources within the State Department and other U.S. agencies, this coordination effort is a complex process. While the Secretary of State and National Security Council establish overall foreign policy priorities and guidance, my office coordinates and oversees our assistance programs to Europe and Eurasia to ensure our efforts reflect U.S. foreign policy and are provided efficiently and effectively.

Nonproliferation and Threat Reduction

Without question, the Defense Department's Cooperative Threat Reduction (CTR) and the Energy Department's Material Protection, Control and Accounting (MPC&A) programs remain at the core of our security and law enforcement assistance priorities with Russia and the other former Soviet states.

Under CTR, since 1992, we have provided over \$4 billion in assistance to these states. In FY 2004, DOD has requested \$450.8 million in CTR assistance, a significant increase from the \$414.4 million in FY 2003, with the largest increase requested to support construction of the Chemical Weapons destruction facility at Shchuch'ye to destroy nerve agent filled munitions. DOD/CTR's FY 2004 funding request also includes funding for the CTR/Weapons of Mass Destruction Proliferation Prevention Initiative (WMD-PPI) to address border security issues. State Department is working closely with DOD to ensure this effort complements/supplements other U.S. assistance.

Assistance under the Department of Energy Material Protection Control and Accounting program totals an estimated \$1.4 billion since 1992. The MPC&A program continues to address one of the highest priority threats to U.S. and international security—the threat of nuclear materials proliferation. As such, the FY 2004 request, at \$252 million, also reflects an increase from FY 2003 levels.

Another nonproliferation program, the State Department Export Control and Related Border Security Program, also expanded significantly since September 2001. The State Department FY 2004 budget request reflects increased funding in both the FREEDOM Support Act and Nonproliferation, Anti-Terrorism, Demining and Related Programs (NADR) accounts to address the porous borders of Eastern Europe, the Balkans and the former Soviet States, particularly in Central Asia and the Caucasus. This program has provided concrete equipment and training—including radios to enhance communications, vehicles, patrol boats and helicopters to enhance transport and patrol capabilities, and infrastructure to ensure that border posts have generators, radiation detectors and other critical equipment to stop illicit weapons trafficking.

The State Department's Science Centers, Civilian Research and Development Foundation, and Biological Weapons Redirection nonproliferation programs also will continue in FY 2004 to help redirect the efforts of former Soviet weapons scientists and institutes toward civilian purposes. These programs are increasingly moving toward long-term self-sustainability.

In this past year, however, serious concerns about potential Russian modernization beyond legitimate defense needs, as well as implementation issues including access to facilities and lack of confidence and credibility in Russian program manage-

ment, delayed or prevented some of these assistance programs from making much progress. Waiver authority provided by Congress for CTR and Title V of the FREEDOM Support Act activities has allowed these programs to continue in FY 2002 and 2003 as their benefits were determined to outweigh the risks in U.S. national security interests. The Administration has requested this waiver authority again for FY 2004 and I urge you to support this request.

In addition, I would urge you to support a return of the CTR certification process to an annual, rather than a fiscal year basis. Under the law revised last year, we may only certify that Eurasian states have met the CTR legislative criteria after the beginning of every new fiscal year on 1 October. Until the Secretary has had the opportunity to review to what extent CTR partner countries have met the legislative criteria during a fiscal year, however, this will entail unnecessary delays in obligating assistance and interrupt multi-year programs. A return to an annual certification process will do much to ensure continuity, and efficiency in CTR assistance obligations.

The scale and urgency of the proliferation threat has been recognized and addressed under these nonproliferation programs, however, the Administration has taken the lead to seek substantially increased nonproliferation assistance for the Eurasian states from other international donors. The President spearheaded the decision by the G-8 Leaders last June to commit up to \$20 billion over 10 years for assistance to Eurasia to reduce threats from weapons of mass destruction, weapons materials and expertise. The United States has pledged to provide half that total. This level of assistance will need Congressional support to succeed and again, we urge you to continue to support this effort.

Regional Security: FMF, IMET and PKO

The primary assistance programs used to enhance regional security in Europe and Eurasia are our Foreign Military Financing, International Military Education and Training and Peacekeeping assistance.

Our continued emphasis on interoperability in our Foreign Military Financing and International Military Education and Training programs for Europe and Eurasia have proved invaluable as we have continued the Global War on Terrorism and undertaken Operation Iraqi Freedom. Our FMF programs across Europe and Eurasia increased from \$168 million in FY 2003 to a requested level of \$192 million in FY 2004, with the primary increases allocated for Central Asian and Caucasus states. For example, FMF proposed for Tajikistan increased from zero in FY 2003 to \$700,000 for FY 2004, reflecting Tajikistan's strong support and cooperation with Coalition forces along its long border with Afghanistan. Likewise, the U.S. has increased security cooperation with Georgia, the Kyrgyz Republic, Uzbekistan and Azerbaijan in light of the Global War on Terrorism. FMF assistance has decreased slightly for some countries, like Ukraine, although FMF will continue in these countries to address military reform, defense needs and enhanced interoperability.

The IMET FY 2004 request for Europe and Eurasia at \$36 million also reflects an increase for Europe and Eurasia from FY 2003 levels to continue to foster interoperability and greater respect for and understanding of the principle of civilian control of the military.

Finally, our Peacekeeping assistance continues to advance international support for voluntary multi-national efforts in conflict resolution and other multinational efforts. Our Peacekeeping assistance will continue to support the Organization for Security and Cooperation in Europe peacekeeping activities, including efforts in Bosnia, Croatia, Kosovo, and other Europe and Eurasian nations.

Law Enforcement and Anti Terrorism Training

Our International Narcotics and Law Enforcement Assistance programs and Anti-Terrorism Training assistance also are critical tools of our foreign policy in Europe and Eurasia.

The law enforcement reform and counter-narcotics assistance—Anti-Crime Training and Technical Assistance (ACTTA) program—has taken on new importance in the “post 9/11” world, where the nexus between narcotics trafficking and other forms of organized criminal activity are strongly suspected to be a source of revenues for terrorist organizations or other destabilizing activities.

From the start of the ACTTA program in FY 1995 through FY 2002, almost \$145 million has been provided in the Eurasian states to familiarize post-Soviet law enforcement agencies with modern techniques for coping with crime, enhance those agencies' capacities to fight criminal activity, reform the legal underpinnings of law enforcement and judicial entities, and strengthen the rule of law and respect for human rights. Over \$20 million is planned for allocation to this important program in FY 2003 and we estimate FY 2004 levels will be about the same.

Ultimately, our overall political and economic reform efforts will suffer if we are unable to reform police and judicial organizations throughout the region. Certainly, rule of law cannot be ensured if police, prosecutors and judges are under-trained, under-equipped, corrupt, or worse, have become ensnared in the highly lucrative and growing drug trade. If the impoverished populations across the region turn to narcotics trafficking to eke out a living, we may see a rise of “narco-economies” that will present a setback for American interests. A rising rate of HIV/AIDS infection from intravenous drug use, which we already see on a large scale in Russia and elsewhere, will present yet another challenge to our efforts to move these nations onto the road to prosperity.

Amidst these conditions, working to ensure reform of the police and judicial organizations, reduce corruption and decrease human rights violations is a critical component to our counter terrorism efforts as well as development of long-term stability.

Fortunately, several factors have led to greater levels of participation from the European and Eurasian states in these programs. First, several states, including Russia, Moldova, Tajikistan and the Kyrgyz Republic, have shown a strong interest to move beyond training programs into projects designed to begin reforming their legal codes, promote transparency and respect for civil society in their police and financial agencies, and to actively fight narcotics trafficking. Their level of commitment was also clear in the aftermath of 9/11, when many of these states joined the United States in efforts to fight terrorism and prevent criminal activities that may support terrorist groups, such as narcotics trafficking and money laundering.

The Congress has responded to the challenge presented by the large flow of heroin coming out of Afghanistan and crossing Central Asia and Russia and entering Europe. The enactment of \$22 million in FY 2002 supplemental funds specifically for counter-narcotics and law enforcement reform in Central Asia has given this program the means to begin projects on a comprehensive, long-term scale. Our Embassies, in cooperation with the State Department’s Bureau for International Narcotics and Law Enforcement Affairs (INL), are now moving to allocate those funds to projects that will support creation of new drug control agencies; provide counter-narcotics training and equipment; help improve passport control of passports and other documents; and support creation of counter-narcotics units, initially in Uzbekistan, that are specially “vetted” by our Drug Enforcement Administration (DEA). We are making use of the best expertise available—in some cases specialized USG agencies, the expertise of the UN Office on Drugs and Crime (UNODC), or non-governmental organizations.

One of the centerpieces of USG regional law enforcement efforts in SEE is the Regional Center to Combat Organized Crime (RCCOC) in Bucharest, Romania. A cooperative effort between the USG and twelve countries of SEE, the Center is a subsidiary of SECI, the Southeast European Cooperative Initiative. The Center’s mission is to address the destabilizing effects of organized crime and corruption in the region through cooperative law enforcement operations and the exchange of information. In its first full year of operation, the RCCOC exchanged more than 5,000 pieces of law enforcement intelligence, or approximately five times the number Europol has exchanged in its entire history. Task forces at the Center combat such regional problems as narcotics trafficking, human trafficking, money laundering and terrorism. Successes include Operation Mirage, the first regionally coordinated and conducted activity in South Eastern Europe in the area of trafficking in persons. This operation controlled 20,558 sites and identified 1738 women, of whom 237 proved to be trafficked persons or potential victims of trafficking. Proceedings were undertaken against 293 identified traffickers.

Much more will need to be done in these areas, just as more will need to be done to give law enforcement agencies the means to better investigate and prosecute despicable crimes like trafficking in persons in the region. The Congress’ support has allowed us to move forward, however, we need to ensure the sustainability of these important programs in FY 2003, FY 2004 and beyond.

CONCLUSION

Overall, we are proud of what all of our assistance providers have accomplished in Europe and Eurasia. There are problems, but the enthusiasm and dedication they have brought to the process make each of them a “diplomat” in the Europe and Eurasian region. Our efforts need to continue to fulfill the extraordinary vision that created these programs.

Assistance for Eastern Europe and the Baltic States

(\$ in thousands)

	FY 2002 Actual	FY 2003 Request	FY 2003 Allocation	FY 2004 Request
Albania	35,250	28,000	28,000	28,000
Bosnia-Herzegovina	65,005	50,000	50,000	44,000
Bulgaria	34,100	28,000	28,000	28,000
Baltic States *	-	-	4,968	-
Croatia	44,000	30,000	30,000	25,000
Serbia and Montenegro	165,000	135,000	150,000	113,000
-- Montenegro	60,000	25,000	40,000	18,000
-- Serbia	105,000	110,000	110,000	95,000
Kosovo	118,000	85,000	85,000	79,000
Macedonia	49,506	50,000	50,000	39,000
Romania	36,000	29,000	29,000	28,000
Regional	74,139	60,000	66,620	51,000
Subtotal, SEED	621,000	495,000	521,587	435,000
Statutory Reduction (.65%)	-	-	3,413	
TOTAL, SEED	621,000	495,000	525,000	435,000

Notes: * denotes earmark

EUR/ACE 3/25/03

Assistance for the Independent States of the Former Soviet Union

(\$ in millions)

	FY 2001 Actual	FY 2002 Actual	FY 2003 Request	FY 2003 Estimate	FY 2004 Request
Armenia	90.81	90.64	70.00	89.42	49.50
Azerbaijan	36.35	43.31	46.00	45.94	41.50
Belarus	11.88	10.91	9.50	8.95	8.00
Georgia	95.36	90.64	87.00	83.61	75.00
Kazakhstan	48.60	47.11	43.00	42.92	32.00
Kyrgyz Republic	32.59	71.16	36.00	37.88	40.00
Moldova	45.07	35.86	32.50	29.82	23.00
Russia	163.48	159.12	148.00	141.33	73.00
Tajikistan	16.81	55.94	22.50	25.85	35.00
Turkmenistan	6.15	11.50	7.00	7.80	8.00
Ukraine	173.00	156.37	155.00	138.55	94.00
Uzbekistan	25.31	119.97	31.50	38.78	42.00
Regional	62.82	65.46	67.00	64.22	55.00
<i>Caucasus</i>	4.40	2.30	2.00	1.99	
<i>Central Asia</i>	7.57	13.85	9.00	6.71	
<i>Eurasia</i>	50.85	49.31	56.00	55.52	
SUBTOTAL	808.22	958.00	755.00	755.06	576.00
Rescission	1.78	-	-	4.94	
TOTAL	810.00	958.00	755.00	760.00	576.00

Mr. BEREUTER. Thank you very much, Mr. Adams. And now we would like to call on Dr. Kent Hill of the USAID for his oral statement.

STATEMENT OF THE HONORABLE DR. KENT R. HILL, ASSISTANT ADMINISTRATOR FOR EUROPE AND EURASIA, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

Mr. HILL. Mr. Chairman, Mr. Wexler, I would like to thank you for this opportunity to testify before this Subcommittee today. I want to especially thank you for your opening statements, which I think complement and corroborate the comments that my friend and colleague, Tom Adams, just made, and I think you will hear a lot of resonance of the same sorts of themes in what I have to say in the next few minutes.

There is no question that what started in 1989 with the SEED Act and in 1992 with the FREEDOM Support Act was a major assignment in the Administration and from the Congress to USAID and to other agencies of the government to try to take on what was really an unprecedented task, the task of helping, in this case, 27

nondemocratic, centrally planned, formerly communist nations, somehow help them to make the transition to be democratic, free-market, prosperous, and peaceful members of the European family of nations.

As Tom says, it has always been our assumption that this assistance would last only as long as necessary to ensure that that transition to market-based democracies was solidly on track and not likely to be reversed. Indeed, eight of the 27 countries have, in fact, graduated, as have been enumerated earlier. The problems, though, have been quite significant. Events during the 1990s produced setbacks and obstacles. There were, in fact, 13 significant conflicts, two major wars in the Balkans. All of this rekindled latent ethnic hatreds, demonstrating the fragility of the stability in this post-Cold War era. The 1998 collapse of the Russian financial system had severe repercussions throughout Eurasia, underscoring the vulnerability of the economies in this region.

Initially, of course, there has also been the problem that a number of rulers in these regions have been less than open, not as open as we would have liked to the kind of democracy and broad-based economic growth as we believe would have been and will be helpful to them in the future. Nevertheless, the successes are quite significant. Fourteen years after the fall of the Berlin wall, we find that this part of the world looks very different than it did in the communist era.

In 1990, the percent of the economy that was in private hands would have been no more than 12 percent, yet by 2002 something like 62 percent is in private hands. Where individuals were once afraid to assert their needs and beliefs, the region's citizens are now finding their voice through multiparty elections and independent media in many cases, and the actions of thousands of non-governmental organizations is having an impact. Freedom House ranks 21 of these 27 former communist states to be free or at least partly free.

Sixteen of the transition countries have achieved full membership in the World Trade Organization, and after years of economic contraction, the region has recorded positive economic growth since 2000, despite a downturn in the global economy. Hungary, Poland, and the Czech Republic became members of NATO in 1999. Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia, and Slovenia will enter or are poised to enter in 2004. Ten of our recipient countries are on track for full European Union membership within the next few years.

Without question, I think President Bush's national security strategy, which embraces the development of democracy and market economies as a fundamental pillar of U.S. foreign policy, is bearing fruit in Europe and Eurasia. These nations are becoming America's allies. Indeed, in Eastern Europe, these new countries have demonstrated their willingness to be some of our most loyal allies in the war against terrorism and in support for our tough policy in Iraq. And despite, I would argue, recent disputes with Russia regarding Iraq, the trajectory of U.S.-Russian relations in recent years is remarkably different than it was, of course, during the Cold War.

While these and other developments are impressive, issues remain, as have been noted. Some of the countries have moved quickly toward democracy and market-oriented economies while others have moved unevenly and a few very much too slowly, and so we have major problems that simply must be dealt with. Economic restructuring is not going as quickly as we would like. Poverty is high in these regions. We know that, and if we have learned anything, it may be, in fact, that the values necessary to sustain democracy and free markets must be talked about as much as the technical institutions that set up democracy and free markets.

So we know our fund levels in the years ahead are going to be lower, and we understand our priorities must reflect those realities in terms of funding. We have got to spend time on HIV/AIDS. It is a big problem. We have got to spend time on corruption. That is a big problem as well, and yet we think the glide path to graduation for some of these countries is clearly in order.

And so I would say simply, in conclusion, that, as you have suggested, this part of the world is very important for our national interests, our national security, and I would add this. Eight of the 19 major recipients of U.S. foreign assistance in this part of the world have an Islamic majority. Now, they are quite secular after the communist period, but there is a danger here. The danger is simply this: With the economic problems that exist in this part of the world, unemployed young men are always vulnerable to be radicalized. We need to understand that economic and political reform is precisely what makes it possible to make that success of radicalization less likely.

We are convinced that we have a strategy that will work and continue to work. We thank you for your support, and I look forward to being available to answer your questions here this afternoon.

[The prepared statement of Mr. Hill follows:]

PREPARED STATEMENT OF THE HONORABLE DR. KENT R. HILL, ASSISTANT ADMINISTRATOR FOR EUROPE AND EURASIA, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

INTRODUCTION

Mr. Chairman, Members of the Subcommittee, I appreciate the opportunity to discuss USAID's program for Europe and Eurasia with you. I want to commence by thanking my colleague at the Department of State, Tom Adams, for all the help that he and his office has provided to us over the years. Together we have been able to accomplish much in this vital region of the globe.

Most of today's testimony is focused on our assistance to the transition countries in the region, as authorized by the Support for East European Democracy (SEED)¹ Act of 1989 and the Freedom for Russia and the Emerging Eurasian Democracies and Open Markets (FREEDOM) Support Act (FSA) of 1992. We also oversee economic support programs in Cyprus, Ireland and Turkey, which I will cover toward the end of this statement (see map, Annex 1).

The September 2001 attacks on the World Trade Center and the subsequent war on terrorism have heightened the importance of U.S. foreign assistance. USAID programs are aligned with U.S. foreign policy goals and support U.S. national interests abroad. For this reason, it is important that the Europe and Eurasia (E&E) region continue to make headway in the transition to democratic freedom and economic opportunity. A peaceful and growing region expands possibilities for U.S. trade and investment—including commercial access to oil and gas reserves—and encourages

¹ Appropriations made under this authority are also known as the Assistance for Eastern Europe and the Baltic States Act (AEEB).

the integration of these countries into regional organizations and global markets. The United States also looks to this region for cooperation on a range of critical national security issues, ranging from the war in Afghanistan and Iraq to the future make-up and viability of trans-Atlantic institutions.

The purpose of this written statement is threefold: to provide an overview of USAID assistance to the E&E region, taking a look back to the inception of the program; to highlight the tremendous progress that has been achieved as well as some of the critical obstacles we still face in accomplishing our goals; and to discuss how we have shaped our program and budget for this year and next in order to address the changing world in which we are operating.

OVERVIEW

When Congress authorized the SEED and FSA programs, Europe and Eurasia was a new frontier for U.S. assistance and the challenge was daunting: to assist the former Soviet bloc transform into 27 democratic, independent states with market economies. In coordination with the U.S. Department of State and other U.S. Government entities, USAID quickly mounted a large program focused on the simultaneous transitions of economic, political, and social systems to market-based democracies. Through FY 2003, Congress has authorized a total of \$15.9 billion for this transition, of which USAID has managed about 65%.

It has always been our assumption that this assistance would last only as long as necessary to ensure that the transition to market-based democracies was solidly on track and not likely to be reversed. Indeed, eight of the 27 formerly communist countries have “graduated” from being major recipients of U.S. foreign assistance.² But elsewhere in the region, events during the 1990s produced setbacks and obstacles. Thirteen significant conflicts—including two major wars in the Balkans—rekindled latent ethnic hatreds, demonstrating how fragile stability can be in the post-Cold War era. The 1998 collapse of the Russian financial system had severe repercussions throughout Eurasia, underscoring the fragility of the economies in the region. Authoritarian rulers—initially in Southeast Europe and still in many Eurasian countries—have thwarted the growth of democracy and broad-based economic growth.

Despite these obstacles, tremendous progress has been made. Fourteen years later, we find this part of the world to be a very different place than it was during the communist era. From Poland and Slovenia in the west to the Russia Far East, the economic and political changes that have occurred since the fall of the Berlin Wall are truly profound. Where the state once controlled nearly every aspect of economic activity, free enterprise and entrepreneurship are flourishing. Where individuals were once afraid to assert their needs and beliefs, E&E citizens are finding their voices through multi-party elections, the independent media, and the actions of thousands of non-governmental organizations (NGOs). Where power and decision-making was once almost exclusively concentrated in Moscow, municipal governments, small businesses, and NGOs are working together to resolve problems and improve the delivery of basic services in communities across the region.

President Bush’s National Security Strategy, which embraces the development of democracy and market economies as a fundamental pillar of U.S. foreign policy, is bearing fruit in the Europe and Eurasia region. These nations are becoming America’s allies. In Europe, Hungary, Poland, and the Czech Republic became members of the North Atlantic Treaty Organization (NATO) in 1999. Bulgaria, Estonia, Latvia, Lithuania, Romania, Slovakia and Slovenia are poised to enter by 2004. Their backing in the international war on terrorism and of U.S. policy toward Iraq has been unwavering, as has been the support of the Caucasus countries (Armenia, Azerbaijan, and Georgia) and the Central Asian Republics (Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan).

With USAID assistance, the European countries are working toward meeting the requisite criteria for accession to the European Union (EU). As noted by Assistant Secretary of State, Beth Jones, before this subcommittee, the Eurasian countries will become Europe’s “new neighbors” after EU enlargement.³ A prosperous and stable Eurasia will reinforce Russia’s growing relationship to the Euro-Atlantic community and expand U.S. economic opportunity in that sub-region.

While all these changes are impressive, they are complex, and issues remain. Some countries have moved quickly toward democracy and market-oriented economies, others have moved unevenly, and a few much too slowly. While we continue

² Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia.

³ Testimony of Assistant Secretary Beth Jones before the House International Relations Committee, Subcommittee on Europe, March 13, 2003.

to press for broad-based reform, other problems have set in—particularly in the deterioration of social conditions, the rapid spread of HIV/AIDS, and the significant growth in human trafficking. On the economic side, a number of problems persist, including high unemployment rates, sectors that cannot compete in global markets, and lack of sound financial markets. On the democratic front, the region has a long way to go to provide for the many systems and checks and balances we take for granted in established democracies—including the consistent application of the rule of law, strong and independent media, and transparent and responsible governance at national and local levels.

Our challenge, now, is to address the most urgent transition issues while consolidating assistance gains and planning, over time, an appropriate end of assistance. The experience we have acquired will guide our program choices and enable us to make prudent investments. I believe we have developed a budget and program for FY 2003 and FY 2004 that address all aspects of this new challenge and promote the ideals embodied in President Bush's vision for global development: just rule, investment in people, and economic freedom.

USAID ASSISTANCE TO THE REGION

Peace, prosperity, and regional stability are the underlying principles of USAID engagement in this part of the world. E&E programs focus on three goal areas: economic restructuring and growth; democracy and governance; and social transition. In each of these areas, our strategy has been to target policy reform and institutional strengthening at national and local levels, and citizen involvement through grass-roots organizations. As needed, humanitarian assistance has been provided as a bridge from emergency relief to more traditional transition programs.

Experience has shown that this broad, multi-sector approach produces important synergies. Democratic elections and growing civil societies strengthen the resolve and robustness of economic reforms; credible rule of law is essential to fighting corruption and fostering economic investment and growth; and fiscal reform is key to the sustainability of social services and protection systems. Through FY 2002, USAID has allocated about 53% of its resources to economic programs, including energy and environment; 17% to democracy; 10% to social sector reform, including health; and 20% to humanitarian assistance.

USAID has prepared a set of funding charts to illustrate how USAID resources have been used over time (see Annex 2). These graphs depict SEED and FSA appropriation levels since 1992, USAID's portion of these funds over time, recent shifts in funding levels by country, and resource allocations by sector.

A SNAPSHOT OF PROGRESS AND OBSTACLES

A few facts demonstrate the progress that has been made in the transition to democracies and market-oriented economies in the E&E region:

- In 1990, the private sector share of gross domestic product (GDP) was 12%; in 2002 it accounted for 62% of GDP, region-wide;
- Freedom House ranks 21 of these former communist states as free or partly free;
- Macroeconomic stability has been impressive—a majority of countries have reduced inflation to single digit levels;
- Sixteen of the 27 transition countries have achieved full membership in the World Trade Organization⁴;
- Ten countries are on track toward full EU membership within several years⁵; and
- After years of economic contraction, the region has recorded positive economic growth since 2000, despite a downturn in the global economy.

The graph on the following page summarizes and compares the progress of E&E countries in democratic and economic reforms. While region-wide trends are generally favorable, there are significant differences among the sub-regions.

In *Northern Tier Europe* (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia), countries have achieved democratic free-

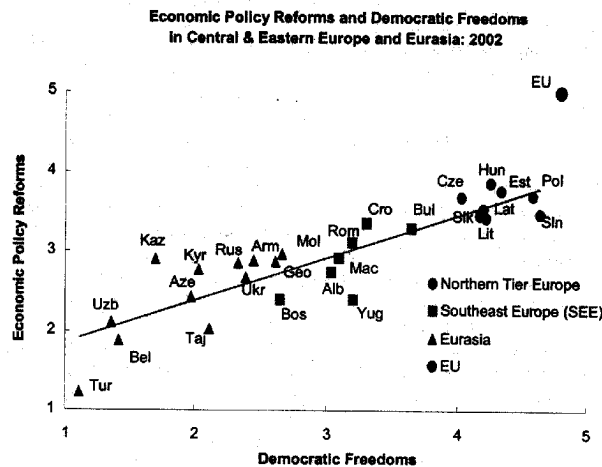
⁴Albania, Armenia, Bulgaria, Croatia, Czech Republic, Estonia, Georgia, Hungary, Kyrgyzstan, Latvia, Lithuania, Moldova, Poland, Romania, Slovakia and Slovenia have acceded to full WTO membership. Except for Turkmenistan, all other E&E transition countries have applied for WTO accession.

⁵Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, the Slovak Republic, and Slovenia are set to join the EU in 2004. Bulgaria and Romania hope to accede by 2007.

doms roughly on par with some Western democracies, but they have farther to go to meet EU economic reform standards. Due to the strength of their transitions, seven of the eight had graduated from USAID bilateral assistance by 2000 and USAID's office in Slovakia closes soon.

In *Southeast Europe* (Albania, Bosnia, Bulgaria, Croatia, Kosovo, Macedonia, Montenegro, Romania, Serbia), resettlement of war-torn areas is progressing rapidly following a decade of ethnic violence. Most of these countries now appear to be pulling ahead and following the transition path charted by the northern tier. However, stability is not yet a given, as demonstrated by the recent assassination of the Serbian Prime Minister, Zoran Djindjic. Other challenges include weak labor markets across the board, and poor human capital in select countries. Corruption remains an issue throughout the sub-region. We are also concerned that ethnic clashes could easily re-emerge without mechanisms for inter-ethnic understanding and cooperation, particularly given the scheduled decline in donor assistance.

The picture is more complex in *Eurasia* (Armenia, Azerbaijan, Belarus, Georgia, Russia, Ukraine, and the Central Asian Republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and Uzbekistan). While progress in economic policy reform has been positive, income inequality is increasing and long-term growth does not yet appear sustainable. Eurasian economies are highly dependent on primary commodities, and Russia dominates the economic links within the sub-region. Depletion in human capital is a major concern, given the decades-long deterioration of health and education systems. With widespread corruption and an incomplete reform process, public trust in government and private institutions continues to weaken.



Ratings of democratic freedoms are from Freedom House, *Nations in Transit 2002* (2002) and Freedom House, *Freedom in the World 2002* (December 2002) and cover events to December 2002. Economic policy reform ratings are from EBRD, *Transition Report 2002* (November 2002), and cover events through September 2002. Ratings are based on a 1 to 5 scale, with 5 representing most advanced.

The slow pace of democratization in Eurasia reflects an ongoing struggle between proponents of broad-based participation and the tradition of autocratic leadership. Political leadership in Belarus steadfastly resists political and economic reform and Ukraine has yet to fully embrace democratic reform. The Central Asian and Caucasus countries struggle with a mindset more in keeping with Soviet times, rather than with a post-Soviet, fully democratic era, and Turkmenistan is particularly unreceptive to transition.

SUCCESSSES AND LESSONS

Since I joined USAID in 2001, I have traveled to nearly every country we assist in the region. I have seen first hand what USAID has accomplished with the resources appropriated by Congress. Without question, our most valuable asset is our in-country presence. It enables us to adapt to changing circumstances, design projects that work well, apply resources where it counts, and achieve results.

Our ability to make small investments that reap multiple benefits has been proven repeatedly. For example, in Russia, USAID supports indigenous think tanks as an effective way to promote policy reform at the national level. One of these think tanks has played a pivotal role in helping a Presidential Commission develop a new concept for intergovernmental fiscal relations. Another has been a key advocate for a variety of laws that have opened the doors to the private ownership and sale of land, private mortgage lending, and the introduction of means-testing in the delivery of social services. Not only does this approach produce policies that are sensitive to the Russian context, it builds local institutional capacity that will continue to advocate for reform long after USAID departs from the country.

Once many of the basic reforms are in place, USAID has found it important to ensure the benefits of transition reach beyond the capital into secondary cities, towns, and rural areas. In Bulgaria, USAID established the Partners in Local Economic Development and Government Effectiveness (PLEDGE) program to target local economic development opportunities in regions with the highest poverty and unemployment rates. PLEDGE brings together participants from the public, private, and NGO sectors to discuss business conditions, make economic choices, and build partnerships. Over four years, the program has reached some of the poorest communities in Bulgaria and has resulted in 534 new partnerships, 197 economic development projects, 88 new businesses, and 3,535 new jobs. In 2004, the PLEDGE system will be incorporated into the Bulgarian Ministry of Labor and Social Policy and its Social Investment Fund. The Government has allocated \$40 million over the next five years to continue this local economic development process.

Where central governments lack the political will to implement reforms or deliver services to towns and villages, we focus our resources at the local level. In Azerbaijan and Georgia, community mobilization programs are inspiring hundreds of communities to collaborate on the design and implementation of local improvement projects, from rehabilitating schools to cleaning out irrigation systems vital to agriculture. Over time, these efforts are augmented with support for micro business and NGO development. As these organizations mature, they become part of a growing constituency for change. Similar approaches have been used in Bosnia, Kosovo, Macedonia, Serbia, and the Central Asia Republics to rehabilitate communities and promote interethnic cooperation after a period of conflict.

In the last several years, USAID has advanced a greater understanding of the social aspects of transition. Because the impact of change on basic human welfare in Armenia has been so harsh, USAID initiated a comprehensive social transition program that coupled policy and systems reform with targeted direct assistance to the most vulnerable. Significant progress has been made in establishing the legal and regulatory framework needed for implementing fair and transparent social insurance and assistance systems. Pension reform has met with considerable success in Bulgaria, Croatia, Kazakhstan, and Macedonia. In Croatia, for example, surveys among members of the workforce showed that acceptance and understanding of pension reform had increased from 30% to over 80%, following implementation of a USAID-supported public education program about the details of this reform. Workers are now signing up in large numbers to contribute 5% of their pensions to newly-created, private funds. USAID is continuing to support pension reform by working with the regulatory authority to ensure sound management of these private pension funds.

We've had some impressive successes in the health arena. For example, we have helped introduce modern approaches to tuberculosis control in the former Soviet Union and contributed to a significant reduction in abortion rates through reproductive health programs. USAID's women and infant health initiative has helped Russia achieve a dramatic (23%) decline in infant mortality since 1996. In Ukraine, the government was so impressed with USAID's 12 model primary health care centers that the Ministry of Health has now replicated the model to over 260 centers. Also, a USAID pilot program in Ukraine has demonstrated a 50% reduction in mother-to-child transmission of HIV. Understanding that efficient health services and healthy populations are critical to successful democratic and free market transitions, we are committed to expanding and strengthening our programs in HIV/AIDS, tuberculosis, and other priority health challenges facing the region.

URGENT ISSUES

In light of these many successes, however, we also face several large and growing problems—which, we believe, are causing backsliding in economic and democratic reform and could put the transition of some E&E countries at risk if they are left unattended. These issues are the rapid spread of HIV/AIDS, human trafficking, endemic corruption, latent ethnic conflict, and a need for greater attention to be fo-

cused on the fundamental values needed to create thriving democracies and market economies that will last far into the future.

HIV/AIDS. Experts on the spread of HIV/AIDS are warning of acute dangers in the near future because of the sharp rise of cases of HIV/AIDS in the region. Concerns are particularly focused on Russia and Ukraine, which have some of the highest rates of growth in the world. Although the disease is presently confined mainly to illicit drug use and prostitution, there is growing evidence it is beginning to break into the general population. Access to illegal drugs, the coincidence of injecting drug use and prostitution, unprotected sexual relations, human trafficking, lack of blood security, inadequate health systems, as well as unemployment and feelings of despair among youth are all contributing factors.

Human Trafficking. Trafficking in persons is an explosive human rights abuse and a highly lucrative, illegal and dangerous global business. An estimated 175,000 persons are trafficked annually from the E&E region, representing about 25% of all persons trafficked around the world. All of the countries in the region are source and transit countries and some are becoming destination countries.

Corruption. Despite USAID efforts to address the issue of corruption across all sectors of its program, long-term gains have not yet been realized. Transparency International reports that corruption is perceived to be higher in Eurasia than any other region in the world. In Southeast Europe, it is roughly the same as found in Latin America. The cost of corruption is enormous. It deters private investment, debilitates the institutions intended to serve citizens' needs, and undermines basic codes of conduct, trust, and cooperative behavior between individuals and groups.

Latent Conflict. While the outbreak of violence in E&E countries has diminished, the risk of conflict has not been eliminated. The lack of social cohesion, growing inequities in income and access to services, and a general distrust of government are all potential sources of conflict. The risk is particularly acute where democracy has stalled or declined, since the potential for conflict increases exponentially when groups within a country lack channels to voice their issues and petition for equal access and opportunity.

The Issue of Values. There is a common issue that permeates many of the transition obstacles discussed above. It is a failure to understand the importance of cultivating values that make democracy and private enterprise work for the greater good in society. A particularly serious problem in the region is the fundamental misunderstanding of what capitalism and democracy are. Too often, capitalism is understood to be individual greed. In fact, in the West, capitalism in its essence is a system of economic freedom within the context of the rule of law, which rewards initiative, hard work, and creativity. Furthermore, the evolution of free markets in the West has included the broad concept of societies providing a "social net" of protection for those who, through no fault of their own, have significant needs for themselves and their families. Philanthropy is an important component of Western, free market society.

Democracy, also, is frequently misunderstood. Too often it is defined as "majority rule." But, free and honest elections do not alone ensure democracy. Such a truncated definition of democracy can be indistinguishable from fascism. Just because the majority—even the overwhelming majority, vote to commit genocide against a minority, it does not make it right or democratic to commit such an act.

Democracy must always be understood to consist of a whole series of elements: minority rights, religious freedom, separation and limitation of power, a vibrant civil society including an independent media, elections, rule of law, and a free economy. We must steadfastly affirm that underpinning a full democracy, a free economy, and a healthy, compassionate society must be a bedrock of values—values appealing to that within each human being which transcends narrow self interest.

Democracy and the Islamic Context. Examining the issue of values also provides an opportunity to look at the apparently growing divide between much of the Muslim world and western democracies. Among E&E transition countries, eight are historically Islamic while several more have significant minorities with Islamic roots. If these populations are economically or politically marginalized during the post-communist transition, the stability of the region can be put at risk. Unemployed and disillusioned youth in historically Islamic areas may be particularly vulnerable to the rhetoric of Islamic political radicals—radicals who often come from outside the region.

THE FY 2003–2004 PROGRAM AND BUDGET

Current Budget Trends

After 10 years of high assistance levels to the region, the FY 2003 budget and FY 2004 request reflect a realignment of priorities, including a significant decline

in levels for key countries owing, in part, to progress made in reforms. The SEED appropriation for FY 2003 is approximately \$522 million, of which USAID manages \$357 million (68%) of the total. For USAID, this represents a decline of 16% from FY 2002. In FY 2004, the SEED request totals \$435 million, of which \$296 million (68%) is proposed for USAID programs. USAID's allocation represents a decline of 17% from FY 2003.

Reform progress in many of the Southeast Europe countries is permitting fairly dramatic budget reductions. Croatia and Bulgaria are now on a "glide path" towards graduation, with a final request for bilateral assistance funding coming in FY 2006, provided progress on reform continues. Pending further review, Romania may be put on a similar phase-out schedule. As the U.S. Government begins preparations to leave this sub-region, it will look increasingly to the Europeans to support the integration of Southeast Europe into regional institutions.

The FSA appropriation for FY 2003 is \$755 million, of which USAID manages \$452 million (60%). This is only a slight decline from FY 2002 levels, before two large budget supplementals related to the war on terrorism increased FY 2002 resources. The FSA request for FY 2004 totals \$576 million, of which \$418 million (73%) is proposed for USAID programs. The proposed drop for USAID funding between FY 2003 and FY 2004 is 7.5 percent. However, proposed changes in some country levels are even more telling.

In FY 2004, proposed USAID funding drops significantly for Russia (by 33%) and Ukraine (10%) in comparison to the current FY 2003 budget. Levels for Russia are declining, as the U.S.-Russian partnership in global matters continues to mature and economic assistance becomes less central to this relationship. Ukraine's lower funding level reflects difficult budget choices that had to be made among competing priorities, including increasing funding for the front-line states of Central Asia. Finally, I would note that the lower funding levels for all FSA recipient countries reflect the shift of roughly \$110 million in funding for professional and educational exchanges from the FSA to the Educational and Cultural Exchanges account in the Commerce, State, Justice appropriation.

The Caucasus countries have been U.S. allies in the war on terror and have much to accomplish in their transitions. They will, therefore, continue to receive significant resources. While not part of this subcommittee's jurisdiction, it should be noted that funding for the Central Asian Republics has increased significantly, starting in 2002, as a result of the heightened importance of this region since September 11. Country budget level trends for FY 2001–2004 are illustrated in Annex 2.5.

The Program

USAID's challenge is to maximize and sustain the impact of assistance while approaching the graduation of targeted country programs. To do this, USAID is adapting its assistance strategy by planning strategically for the phase-out of USAID country programs; adjusting core program areas to reflect transition progress and urgent issues; and emphasizing critical crosscutting themes, such as values cultivation, to help sustain transition over the long run.

Planning for program phase-out. Lower resource levels require considerable adjustments to USAID's bilateral and regional transition programs. In keeping with the State Department's Balkans Assistance Policy, USAID is putting greater emphasis on civil security, including the rule of law, independent media, and democratic reforms. An overriding theme in phase-out thinking will be to find ways to decrease the region's vulnerability to conflict and ensure that political and economic instability do not provide a seedbed for terrorist activity and financial networks. In Eurasia, highest priority will be given to assuring, as much as possible, the irreversibility of economic and democratic transition and helping control the spread of HIV/AIDS and multiple drug resistant tuberculosis (TB). These emphases are reflected in resource allocations across sectors (see Annex 2.4).

Systematic planning for the eventual end of assistance enables USAID to ensure the sustainability of assistance gains in a number of ways. These include: focusing resources on the most critical vulnerabilities and gaps in a country's transition, informing policy dialogue with the country and other donors, determining areas that may need attention after USAID departs, and preparing for an orderly close-out of activities. Phasing-out a bilateral program is by no means the end of our connections. We have continued our close connections, including some modest funding, to the eight European northern tier countries, and we will do the same with those who "graduate" in the next few years. These countries are our allies and friends, and we seek their partnership in addressing a range of development issues, such as trade and investment, infectious disease control across borders, and drugs and human trafficking.

Building on our experience with the European northern tier graduates, USAID is exploring appropriate post-presence initiatives as a way to consolidate assistance gains and carry support for democracy and markets into the future, even after a local USAID mission is closed. Post-presence initiatives include wrap-up activities that complete work already underway, support to local organizations—such as NGOs—to sustain results already achieved, and legacy mechanisms and partnerships, which could be of a bilateral or regional nature.

For example, one of the legacy mechanisms created as the European northern tier countries prepared for graduation was the Baltic American Partnership Fund, which continues to provide an environment for Baltic NGOs to be forces in sustaining the transition to market democracies. Another is the Polish-American Freedom Foundation (PAFF), which was established with earned proceeds of the USAID-supported Polish-American Enterprise Fund. PAFF is a private, nonprofit organization that uses income from investments to promote economic and democratic reform without further USAID involvement. Recently, the newly-formed Balkan Trust for Democracy was set up jointly by USAID, the German Marshall Fund of the United States, and the Mott Foundation. This public-private partnership establishes a Trust which will provide continuity and grass-roots support for democracy and good governance through a small grants program.

This partnership with the German Marshall Fund and the Mott Foundation is but one example of USAID/E&E Bureau's commitment to developing private-public alliances under the Global Development Alliance (GDA) business model. In FY 2002, the Bureau obligated nearly \$15 million that was matched by nearly \$39 million from private sector partners, much of which was devoted to the Earthquake Zone Alliance in Armenia. With the support of our GDA Secretariat, both Washington-based and field staffs are receiving training in the identification and development of public-private alliances. We expect each of our Missions to redesign past activities or design new ones to leverage additional funds from the private sector.

Core programs. We are incorporating new ideas into our core program areas of economic, democratic, and social transition to reflect the advances and vulnerabilities in transition status. Two emerging themes in the economic growth area are building trade capacity and increasing competitiveness. These initiatives pragmatically “marry” macroeconomic reforms and microeconomic foundations for business growth and link these efforts to demand in the marketplace. We continue to have a significant role to play in working with micro and small business and in providing business development services with the aim of reducing unemployment—a significant issue within the region; a key focus will be building access to finance.

In the democracy area, we firmly believe that our overall accomplishments in transition cannot be accomplished without consistent improvements in civic and political freedoms, particularly in Eurasia. To this end, we are augmenting our traditional programs (NGO development, independent media, judicial strengthening, and local governance) with the intention to emphasize even more than in the past those universally recognized values that buttress a full understanding of democracy. These include majority rule *and* minority rights, good governance, freedom of speech and press, rule of law, religious freedom, human rights and civic participation. USAID is also integrating conflict prevention modules into strategies for at-risk countries, such as Georgia, Macedonia, and the Central Asian Republics.

In the social area, we will continue to develop awareness and targeted initiatives to broaden access to the benefits of reform, thereby sustaining support for the transition to democracy and free markets. We are redoubling our efforts to fight the spread of HIV/AIDS, stem the growing tide of human trafficking, and mitigate the adverse impacts of transition, including such programs as public-private partnerships for social insurance and pension reform.

Crosscutting themes. To augment and support mission efforts in the region, we are allocating part of the regional budget to fund interventions intended to incorporate values into core programs. Specifically, we will invite qualified partner organizations to propose innovative ideas that cultivate and strengthen universally recognized values in support of USAID's program goals in economic, democratic, and social transition. USAID also is committed to promoting democracy and human rights in an Islamic context and to minimizing opportunities for violent extremism in historically Islamic areas.

Corruption and conflict are also critical crosscutting issues and relate substantively to the new initiative on values. Overcoming corruption requires not only the strengthening of laws and institutions, but also cultivating the capacity for honesty and good will inherent in all societies. Reducing the risk of conflict within and between countries necessitates a respect for the dignity and worth of every human being regardless of their religion, ethnicity, or worldview. To this end, we are helping our field missions to analyze systematically current portfolios through corrup-

tion and conflict lenses and to incorporate these types of assessments into new program development. Our Washington office is also developing a system to track conflict-related trends to enable cross-country analysis and better targeting of resources in this area.

CYPRUS, IRELAND AND TURKEY

Outside the E&E transition countries, USAID is managing program resources in other areas. Traditionally, Congress provides Economic Support Funds (ESF) to Ireland and Cyprus to promote reconciliation and conflict resolution through local, bi-communal initiatives. The FY 2003 appropriation for Cyprus is \$15 million and \$25 million for Ireland (excluding the Walsh Visa Program). The FY 2004 request proposes \$7.5 million for Cyprus (\$7.5 million reduction) and \$8.5 million for Ireland (a \$16.5 million cut).

The FY 2004 budget request also proposes \$200 million in ESF funds to Turkey for debt servicing in support of its economic recovery.

CONCLUSION

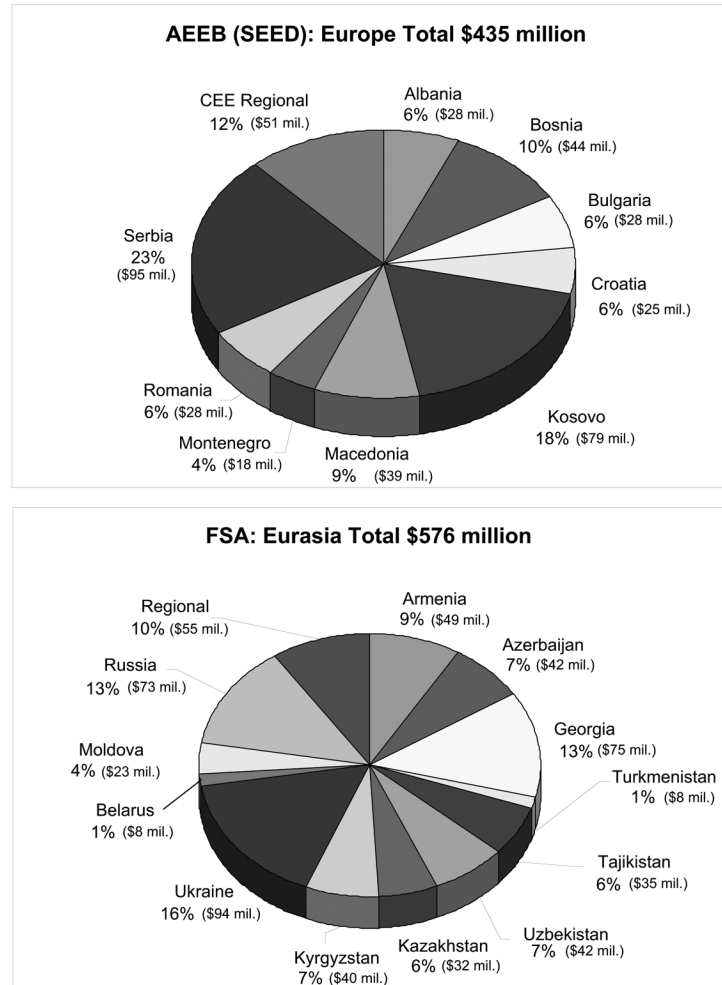
USAID remains committed to the important task of promoting democracy, free markets, and social stability in Eastern Europe and the former Soviet Union. We are proud of our successes, and yet very aware that there is much left to be done. The remaining work to further stabilize the Balkans and Eurasia is intimately connected to U.S. strategic interests to promote stability, nurture important allies, and reduce opportunities for the spread of terrorism where stability is not present. As new priorities emerge in other parts of the world, I urge you and your committee to provide consistent support to the program in Europe and Eurasia so that we can achieve the worthwhile and strategic foreign policy objectives which are so vital to U.S. and regional interests in this important part of the world.

Thank you, Mr. Chairman. I am ready to answer any questions you or the Committee may have.

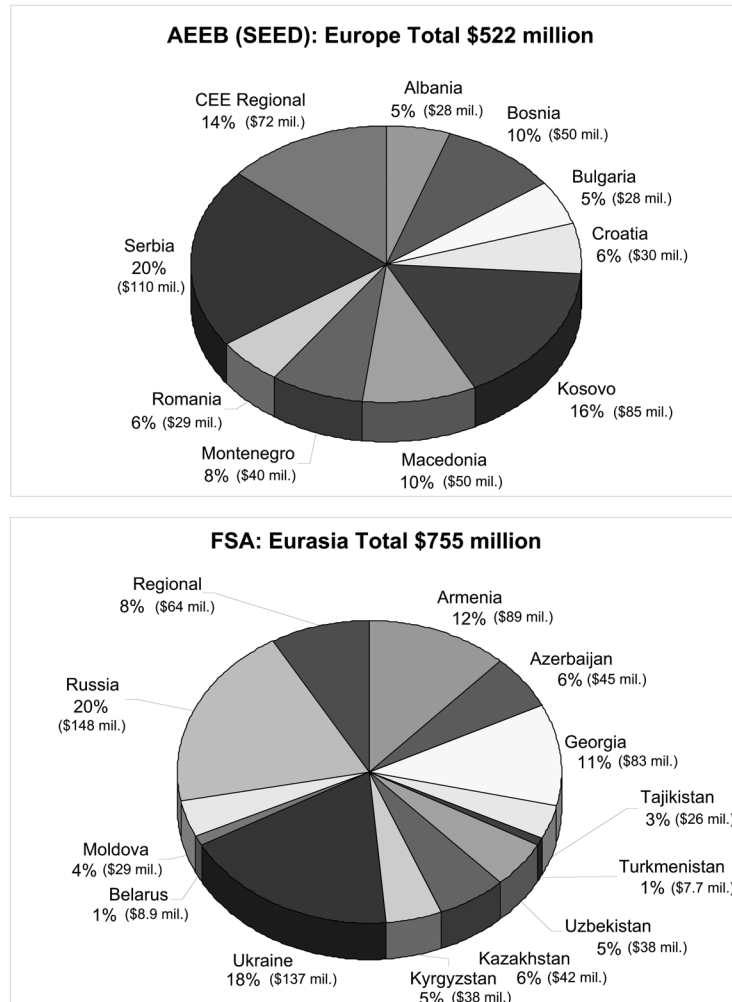
ANNEXES

Annex 1: Map, noting SEED, FSA, and ESF Countries
Annex 2: SEED and FSA Funding Trends

FY 2004 Budget Request Levels



FY 2003 Budget Levels



ANNEX 2

E&E BUDGET TRENDS AND FUNDING LEVELS

Appropriation Trends, FY 1992–FY 2004 (see Chart 2.1)

- Early SEED funding averaged about \$400 million annually. Following a peak of \$497 million in 1996, resources for Europe started to decline as the countries in northern tier Europe approached graduation from bilateral assistance. Higher levels after 1998 reflect additional support to Southeast Europe as a result of the Kosovo crisis and the changing political landscape in Croatia and Serbia. The drop in levels beginning in 2003 reflects progress in Southeast Europe and planning for graduation.
- FSA funding peaked in FY 1993 due to a supplemental appropriation resulting from the Clinton-Yeltsin summit in Vancouver, Canada. The funding level

for 1995 also spiked as a result of increased resources for Russia. Funding for Eurasia has stabilized around \$800 million annually between 1998 and 2001. Appropriations have contained substantial earmarks and directives for Armenia, Georgia, and Ukraine, as well as funding for the Clinton Administration's Expanded Threat Reduction Initiative (ETRI). The drop in levels in FY 2003–2004 reflect a realignment of foreign policy priorities and a separate appropriation for the Educational and Cultural Exchanges Account in the Commerce, State, Justice 2004 appropriation.

Resources to USAID and Other USG Agencies (see Charts 2.2)

- U.S. assistance to Europe and Eurasia is overseen by a legislatively-mandated State Department Coordinator and implemented by various USG agencies. USAID has managed the largest portion of assistance to the region, although percentages have varied.
- The strong, multi-agency USG response to the Kosovo crisis resulted in an increasing share of SEED funds transferred to other agencies during 2000.
- The share of total FSA funding managed by USAID decreased from 62% in 1999 to a low of 52% in 2000, as the administration implemented ETRI. Since then, USAID's share has gradually increased.

Budget Allocations by Sector (see Charts 2.3 and 2.4)

- SEED and FSA funding support the transition of the region to market-oriented democracies. Resources are allocated to four broad program areas: economic restructuring; democracy; social transition; and humanitarian assistance.
- Cumulative obligations through FY 2002 (chart 2.3) show that the economic restructuring area (including energy and environment) has captured the lion's share of resources at 53%. This percentage is gradually decreasing as an increased proportion of SEED resources are allocated to democracy-building.
- Humanitarian assistance (about one-fifth of obligated resources) has addressed the fallout from conflicts and natural disasters, particularly in the Caucasus sub-region, Tajikistan, and the countries and provinces that comprised pre-1989 Yugoslavia. Humanitarian programs provide emergency relief and lay the foundation for recovery through community-based, self-help projects.
- Social sector resources support improved health care and provide for a social sector strategy that addresses the social safety net issues related to transition.

Country Budget Levels, FY 2001–2004 (see charts 2.5)

- SEED and FSA budget trends for each country are shown.

FY 2003–2004 Budget Levels Compared (see charts 2.6)

- Current funding for Kosovo, Montenegro, and Serbia constitutes 45% of the total SEED budget, reflecting the priority attributed to the post-Kosovo situation. Bosnia and Macedonia each capture 10% of SEED resources. Programs for Albania, Bulgaria, Croatia and Romania each share between 5–6% of resources. Regional funds include legislative earmarks for the Baltics (\$5.0 million). It is anticipated that the country share of SEED resources will vary only slightly in FY 2004.
- In Eurasia, Russia and Ukraine capture the greatest proportion of FY 2003 FSA resources (20 and 18%, respectively), followed by Armenia and Georgia (12% and 11%). In the FY 2004 budget request, these proportions decline for Armenia, Russia, and Ukraine.

Mr. BEREUTER. Thank you very much gentlemen for your oral statements in addition to the written statements, they are quite extensive and very helpful. All of your comments are helpful, but I thought that the last remark you made, Dr. Hill, was one we have to keep in mind at all times. I know there is a concern that is crystallized among many Members of Congress today that we are not doing enough in the area of public diplomacy in the Muslim world, in particular, and that is very apparent right now.

We are going to have, I think, a full opportunity to ask questions. We are going to do this informally. I will begin by just an informational question.

Slovakia was recently authorized for assistance under the FSA. Has the effort started there, and, if so, what has happened, Mr. Adams? They are the most recent addition, as I recall.

Mr. ADAMS. Well, Slovakia actually is a graduate of the SEED program.

Mr. BEREUTER. Of the FSA.

Mr. ADAMS. Of the Freedom Support—

Mr. BEREUTER. Wrong initials. Wrong initials. I am sorry.

Mr. ADAMS. I see. I am sorry. Forgive me. Yes. Slovakia has been authorized foreign military financing.

Mr. BEREUTER. Under the NATO Act that the Congress passed, last Congress.

Mr. ADAMS. Partnership for Peace, yes.

Mr. BEREUTER. Could you speak to that or not? Is that assistance slowing?

Mr. ADAMS. FMF is very slow, at IMET, International Military Education and Training. FMF takes about 18 months to 2 years to actually get through the pipeline, on average. Sometimes it is faster. So I do not know that the things are actually flowing out the other end, but yes.

Mr. BEREUTER. Thank you. I realize that is a little out of your area of responsibility.

We have the three NATO member countries, the seven that are now under accession. We have most of the 10 that are being considered for accession to the European Union within the area of responsibility of the SEED or the FSA. You have conducted your own assessments, various countries of those organizations, the EU itself and various members of NATO, have all been making assessments on some of the same things that are objectives of the SEED program, for example, so there has been a lot of scrutiny.

One of the things that I am most concerned about in looking at some of the NATO aspirants, and I will not identify them here but a significant number of them, is the problem they are having with organized crime and governmental corruption, and in a couple of cases it seems to me a fundamental problem in the integrity and training of the judiciary and its even-handed dispensation of justice. How successful are we in this area, and what have we done that has worked rather well that you might point to?

Mr. ADAMS. Let me just begin, and then I will turn it over to Dr. Hill. We, too, have been concerned that many of the NATO selects have a problem with corruption, and, in fact,—

Mr. BEREUTER. I assume it goes beyond the NATO aspirants as well to some of the other countries.

Mr. ADAMS. It does. It is a problem throughout this region. That is why they need our assistance in some fashion in many cases, and we have a number of programs, but the thing that we also work on at the State Department is trying to build up the political will in these countries to combat it. That is the single most important thing. If the word comes down from the top to combat corruption, it gets done a lot more effectively than if that word does not come down.

I think, in Southeast Europe, there are two things working for us along those lines. One is the attraction of entering NATO. We have made it very clear that this is one of the criteria that we use for NATO membership. The other thing is, on the economic side, the brass ring is really EU membership, and the EU is also making it clear. We are working very closely with the European Union through the Stability Pact and other areas to address corruption, and I will stop here and let Kent.

Mr. HILL. Well, you put your finger on probably what has got to be the nerve center of what is behind preventing the reforms to really take hold. I was at a conference in Boston last week, and I saw a paper where they had done a study of the former Communist countries, and the result will not surprise anybody who has working on these issues for the last 14 years, but the evidence is overwhelming that the decades of Communist rule had a debilitating and a pervasively destructive effect on culture, the cultural values, and many from the West, when they thought the transition would be more smooth, underestimated the depth of the problem in dealing with the widespread corruption.

One of the problems that we face, of course, is that you fix it in one particular area, and there are so many other parts of the economy or the political system where it is not yet fixed, and so people are tempted to continue to play by rules other than the rule of law.

What we have tried to do for many years now is, by working with ABA/CEELI, with NGOs that focus on legal reform—I spoke recently to Federal judges in the United States who voluntarily their time, meet with their counterparts, judges and lawyers, in these countries, and that contact between our lawyers, our judges, and theirs with respect to how a fair judicial system works seems to have a major impact. We try to get the laws changed which allow the judiciary to be independent. We try to get new rules in place for prosecutors, et cetera. And I think there is progress, but, as Mr. Adams suggested, it is not always as fast as we would like.

The good news about them becoming incorporated within the EU, et cetera, is that they have high standards with this regard. A lot of our assistance packages are designed to help make them accessible, make them be able to accede to the EU, and in time—they want to get in badly—in time, I think they are making the adjustments, but it is just going slower than we might want.

Mr. BEREUTER. We, of course, are very much interested in an independent judiciary, but in a couple of countries I have been to lately that have been the recipient of SEED assistance, they have the problem of judges being appointed for life and in many cases the judges that are locked into lifetime appointments are not the kind of judges that would advance the equity and reasonable functioning of the judiciary system. They, in fact, are corrupt in some cases. What is our advice to them, if we are bold enough to give advice?

Mr. HILL. You are right to point out that what we usually consider to be a virtue of the western experience, that is, lifetime appointments, assumes that the judges you appoint have integrity, and there is reason to think they will perform successfully. What is missing often in these countries is any kind of ability to deal with a judge that is corrupt, and to the extent we can share

through our judges in our practices here ways to deal with a corrupt judge, even if they have a lifetime tenure, is probably about the only thing I can think of we could do, and that is a tough row to hoe, but it is what we ought to try to do.

Mr. ADAMS. The Department of Justice helps us in this through OPDAT and ICITAP. A lot of their programs have been effective in this area.

The other thing we do is when our programs do not work, when there is not a willingness among the government to address corruption, I think then we can resort to some democratization programs and try to stir up the people to do something about it. One good, recent example I will cite is in Ukraine, where USAID hired an NGO to do a survey of corruption. They went around and interviewed several thousand people and basically asked them if they had to pay any bribes to get free government services, and the results were fairly predictable from our point of view but greatly shocked the government and caused a lot of discussions. There are those kinds of programs. You can also train journalists on how to cover corruption cases. There are things you can do, kind of guerilla tactics, I call them, if the officials do not respond to corruption problems.

Mr. BEREUTER. I wonder if some of the people that provided advice through you or to our government have ever looked at the so-called "Missouri Plan," which a number of states have adopted decades ago, which subjects judges to a vote about every 8 to 10 years so that the people, if they choose, can throw them out. They do not re-elect them, they simply have the option of throwing out a very bad judge. It rarely happens, but when it does happen, and you have a sufficient number of people willing to cast a vote to throw a judge out, you can pretty well expect there is a good reason for it. A number of states have adopted that over the last few decades, and I wonder if any of our political scientists and jurists ever look at this as something to consider.

Mr. HILL. I have visited a lot of these programs. I have never heard that discussed, but it is certainly an intriguing idea, and we could certainly suggest it to our democracy folks that work on these issues.

Mr. BEREUTER. Well, I wish you would examine it before you proceed, but, at least, I know it works well in a number of states.

Finally, before I go to Mr. Wexler for his first round of questions, the Stability Pact for Southeastern Europe, which you mentioned, Mr. Adams, in your written statement, is, I understand, one that we, at least, have made a contribution to. It is a multilateral effort. Is that correct?

Mr. ADAMS. It is basically most of the countries of Europe, of, at least, Western Europe, Central Europe, Canada, and ourselves are in the Stability Pact plus the World Bank and some of the other international financial institutions. We actually like this a lot because our contribution to this is less than 5 percent of the funding, and yet we have great influence in it. So this is a way we have leveraged large amounts of European funding to help stabilize Southeast Europe, and there have been a number of good programs under the Stability Pact.

Mr. BEREUTER. I noticed that one of the six core areas of activity for the last 2 years has been fighting organized crime, which is a good core area, it seems to me, but it also has one that is called stabilizing population, which I do not understand. Can you enlighten me as to what that might mean?

Mr. ADAMS. As you know, there has been a lot of ethnic cleansing in Southeast Europe, and I think this is really to allow people to return to their homes in safety and security.

Mr. BEREUTER. We are not talking about refugee flows, per se. We are not talking about immigration restrictions.

Mr. ADAMS. Yes, illegal immigration. It combats trafficking in human beings, and it allows people to return to places where they have been ethnically cleansed.

Mr. BEREUTER. The percentage of human trafficking in the world has a big part of its genesis in this area. I think I have seen something like 25 percent or more. Thank you. We will come back to you. Mr. Wexler, please proceed.

Mr. WEXLER. Thank you. I have not fully thought this out, so if I try to express it and it makes no sense, I will just stop. I am reading this book *Struggle for Europe*, I think it is, and one of the things I learned that I was not aware of were the unintended consequences of the Marshall Plan in places like Hungary and then Czechoslovakia in terms of the unintended consequence being exactly what we did not want, which was a rejection, a forced rejection by the former Soviet Union upon these countries of western aid so that they would not move closer to the United States.

Now there is no analogy, obviously, to be made between now and the Marshall Plan, but I am curious if there is an analysis being made in terms of some of the former Soviet States as they receive our aid, as they hopefully become incorporated into the European Union. Is there an analysis, or is there a concern, particularly given some of the more recent developments or most recent developments in Russia, in terms of what appears to be a growing revelation of Russian companies that may be participating in Iran and Iraq? Is there a concern that in the process of helping for all the right reasons several newer nations that there will be unintended consequences in Russia that will go unaddressed or are going unaddressed?

Now, as I am even saying it, my initial action is one has nothing to do with the other. What positive developments there are in former Soviet States should have little or no ramification in terms of Russia. But it would seem to me that that may not be a thought process that is taking into consideration the analysis that Russia is going through in terms of their diminishing role in the world or potentially diminishing role in the world. And if events like Russian companies providing material to Iran and Iraq do create divisions between the United States and Russia, where is it that we marry the two policies, if we do, or is there any relevance to this type of concern?

And had I thought about this for a couple of more days, I would have said it maybe more coherently. I apologize, but it seems to me that we have a great danger in losing Russia, not that we would be losing Russia, but, in some respects it seems to me, some of the advances we have had with Russia is not do, in part, because we,

for the most part, do not confront them with respect to Chechnya. There may be valid reasons or not valid reasons for doing so. I think had we taken a principal position in Chechnya and continued to advance it, our relationship with Russia publicly would not be as positive in certain respects as we tend to portray it.

So I guess the point of all of this is the policy in some of the former states; will it affect our policy in Russia? How will the most recent developments in Russia, in terms of what their companies may or may not be doing in places like Iran and Iraq, how is that being incorporated into our aid program, or will it be, and does any of this have any relevance to anything I have said?

Mr. ADAMS. Yes. I will take the first crack at it. This is a very important question, Congressman, and we do worry about it, about just what you said. First of all, we are very careful to brief the Russians on our assistance programs in countries that neighbor them, including, I might add, the Georgia Train and Equip program, for example. So we want to have a good, new relationship with Russia, and I think Russia wants to have a new relationship with us.

Now, on the arms sales to Iraq, let me just say, we are very concerned about these reports. If they are true, such equipment in the hands of Iraqi forces poses a direct threat to U.S. and coalition armed forces. We have been in touch with the Russians over a period of many months. We have expressed our concern to them about Russian firms selling military-sensitive equipment to Iraq. We have raised this with the Russian government a number of times, including at our most senior levels, particularly over the last 2 weeks. Just yesterday and the day before, we again talked to them about this, and we expect the responsible Russian agencies to follow up on the information we have provided in a serious way.

Now, how this would affect our relationship; obviously, there are laws that kick in to states that receive U.S. assistance that sell military equipment to state sponsors of terrorism, which Iraq certainly is, but we have a process for doing this that has to be followed. We still do not have all of the facts, and we will obey the law on this.

Going back to your broader question, we would hope that this new relationship with Russia would minimize these kinds of problems over time. The fact that this one has come up in a particularly sort of in-your-face way greatly disturbs us, but we take this seriously. But I do not think, in any case, we are going to go back to a Cold War relationship. We are too far beyond that now. The relationship is too important.

Mr. HILL. Just three or four quick comments. I think one of you mentioned in your comments something that was very, very accurate—I think it was you, Mr. Wexler—that a fairly small percentage of our assistance, our USAID assistance and other assistance, actually goes through the government into Russia. It is less than 20 percent, and that is because we often feel like the best way we can use U.S. foreign-assistance dollars is in other ways. We do have some good contacts on the economic front and small- and medium-enterprise front where they are clearly open and moving in the right direction. We have contact with the government but much of our assistance just simply does not go in that direction.

Where it is going is in HIV/AIDS direction, civil society direction, pro-media direction. The last time I was in Moscow, Ambassador Veishbow posted for me a meeting in the residence with about 20 human rights leaders, and I can tell you, high on their agenda was specifically to talk about Chechnya, and to do that under the umbrella, under the roof, of the Ambassador in the presence of the Assistant Administrator for Europe and Eurasia sent a powerful signal outside that room as to the convictions of the United States government.

Finally, I want to make an observation, if I might, more from an historical standpoint. There has always been what James Billington at the Library of Congress has talked about as a kind of love-hate relationship between Russia and the United States. It predates communism. It was through the communist era. It will be there long after the communist era is over. It is a very complicated relationship where they, at one and the same time, often admire us and are very supportive and, on the other hand, are jealous, concerned, defensive, and there is a pride element.

When you consider what has happened in the last 12 years, it is extremely difficult for Russian pride to accept what is happening to their country. Every year now for several years, the demographics show a decline in population. There is going to be a presentation on Monday at USAID by Murray Feshbach, who is the foremost expert in the world on demographics in Russia, and he is going to report that it is very grim up ahead for Russians in terms of what they are facing ahead. They want to be a big player. They used to be a big player. It is hard not to be as big a player on the world scene as they want to be.

What I am trying to suggest is that levels of U.S. assistance, in comparison with the size of even a diminished Russia, are relatively small. I do not think the assistance levels will play as big a role in how they feel about us or our relationship with them as other factors that will have to be very carefully handled by our diplomats, but I would expect that if history is any guide, we can believe that over the next few years and into the indefinite future there is going to be a lot of ups and downs in that relationship.

I would simply note this, in conclusion here, that the very good news is that something, as Mr. Adams said, is qualitatively different about the relationship. There are too many times now where Russia and the United States, despite differences, find themselves on the same page addressing the same sort of issue, and I would like to believe, and I hope we can believe, that in time that is going to keep us with a fundamentally different relationship than was the case for the better part of 70-plus years.

Mr. WEXLER. Thank you. Mr. Chairman, may I just—

Mr. BEREUTER. Please go ahead.

Mr. WEXLER. In terms of several of these countries' process and ultimate entry into the EU, how will we define success for these countries? Is success full entry into the EU and then our programs cease? Is that a self-serving goal in terms of, Dr. Hill, your last comment in terms of 17 of the 18 countries or something like that being of majority Muslim population? Do we define that as being an American success or a goal of our policy?

Mr. HILL. I will take the first crack at that. When I mentioned the eight countries, of the 19 major recipients, of course, five of those are outside the purview of this Committee because they are in Central Asia. But within the purview, of course, you are talking about Albania, you are talking about Azerbaijan, and you are talking about Bosnia. These countries are further away from full integration, obviously, into the European family of nations, but if you look even at the relationship between Turkey and the EU, you can see that there is a necessity for Europe, both in terms of the internal migration of Muslims into their area—they have to figure out what to do with a very large population now of Muslims in Europe—and also the possibility that there may be a member within a few years, a member where the overwhelming majority of the population are Muslims. So the world is, indeed, changing.

The place that we are probably more popular than anyplace else in the Balkans is Albania or Kosovo. They are immensely relieved that the United States took care of them at a very difficult moment. Sometimes you wish that that goodwill that we sense from people in the Balkans toward us from the Muslim population was more broadly known elsewhere in the world.

Mr. ADAMS. If I could just add, when we are judging when to graduate a country, when do we say, let Poland stop having large-scale U.S. assistance under the SEED program? We look at a basket of economic and democratic indicators. The democratic indicators come largely from Freedom House. The economic indicators come from the European Bank for Reconstruction and Development. When they reach a certain level, we say this is far enough long. Now, that does not mean that all U.S. assistance ends. Poland now gets a significant amount of foreign military finance, for example, because they are a NATO select, international military education and training, et cetera, et cetera.

So we shift away from this democracy and economic building toward more traditional forms of assistance, and we study this very hard. We have a lot of interagency discussions. We have them going on now with regard to Russia.

Mr. HILL. Mr. Chairman, if I could just add one point, we actually have a graph included in my written testimony. At USAID, we use this graph based on the very indicators that Mr. Adams pointed out, which will show all of these countries on a trajectory, and the northern tier graduates, the eight countries that graduated a few years ago, are all up here near the EU. You just can follow down that line, in terms of economic and political success, and you can see the countries that are now approaching graduation, and further down, to the bottom left, we have those countries that have a long way to go.

So it is not an exact science, but there are ways to tell whether a country is making progress and if it is approaching the same levels of the countries that were earlier graduated.

Mr. WEXLER. Thank you.

Mr. BEREUTER. Thank you, Mr. Wexler. We will have an opportunity for a second round today. I need to adjourn us at least by four, maybe before that, but, in any case, take 10 minutes, Mr. Engel. I am pleased to recognize the gentleman from New York, and we will come around for a second turn.

Mr. ENGEL. Thank you, Mr. Chairman. I do not want anybody reading into anything that I am sitting on the Republican side of the Chairman here. We are all good friends and it is my pleasure to be here, and I want to thank you, Mr. Chairman and Ranking Member, for calling this very important hearing today. I think, even with the war in Iraq, it is very important to focus on our assistance program for Europe where many new democracies and new allies are beginning to take their rightful role in the world.

I have chaired the Albanian Issues Caucus in this Congress for many years and I want to take the opportunity to call to the attention of the Subcommittee two new democracies in Central Europe which are supporting us today in the war in Iraq. Mr. Chairman, as the campaign against Saddam Hussein moves forward, I am pleased to inform you of the strong support of Albania, Kosova, and the Albanian people.

During these important days Albanians throughout the Balkans, no matter in what country they reside, have not forgotten how America stood with them against Slobodan Milosevic and how our valiant military saved tens of thousands of their people. And not only has the Republic of Albania sided openly with the United States; it has pledged to send ground troops to the Persian Gulf, one of only a handful of nations to do so. It is dispatching 75 of its best commandos from its otherwise small military to join our forces.

It is also, Mr. Chairman, an honor to inform you of the support of the people of Kosova for America's efforts in Iraq. In a recent *Washington Post* article just a week or 2 ago, Kosova Prime Minister Bajram Rexhepi declared in the clearest of terms, and I just want to quote a little part of it; he said,

"In the coming conflict with Saddam Hussein, we stand with you, America. We are here to tell you that your sacrifices for the cause of human freedom are remembered. We are here to bear witness to the fact that the day of the dictator is over and that peace can be ensured only when all are free."

Mr. Chairman, I ask unanimous consent to include in the record Prime Minister Rexhepi's op-ed and also a statement from the Prime Minister of Albania, Fatos Nano.

Mr. BEREUTER. Without objection.

Mr. ENGEL. Thank you, Mr. Chairman. The Albanian people, the majority of whom, I might mention, happen to be of the Muslim faith, are among the most pro-American anywhere on the planet, and as we proceed in the war, let us recognize how the Albanian people have recalled our efforts during their time of need as they stand with us today.

I wanted to ask a couple of questions. One about economic growth in Kosova, the lack of jobs and economic growth is obviously one of the major concerns there, and in many ways I believe this is a factor of the lack of regional cooperation. I believe that this situation can be substantially alleviated if the regional and Kosova-wide road networks were improved.

I would like to ask you about two of the major initiatives, of which I know you are aware. Many, firstly, have urged the construction of a road from Pristina, the capitol, to the port of Durres.

This road would not only improve regional trade by opening up a key artery between Kosova and Albania, but it would also give Kosova access to another major port. It would also have, I believe, national security benefits to the United States. As you may recall, during the Kosova War, there was no way to roll armored forces into Kosova for a forced entry. This road would provide a key strategic option to our military in the event of emergency.

And, secondly, as you know, I have raised several times the possibility of a road from Pristina to Pehe, a segment of highway only 15 miles in length, and this initiative would involve paving an already existing road between these two major Kosovar cities, and I am wondering if you could please comment on these possible road projects, Dr. Hill.

Mr. HILL. Last year, when I visited Albania and was in Tirana, I remember taking the road from Tirana on the coast, and I remember thinking at the time the scenery is beautiful, but we had a lot more time to view it because of the quality of the road. So I know that the roads in this area are, indeed, a very serious problem.

The only two comments that I think probably are particularly relevant to your concern about improving the roads there, and I would agree with your assumption that anything that would improve the communication and trade capacity would have to help Albania. Albania has a very high poverty rate. Unemployment is high. So the problem is real. The problem you have articulated is real.

The two concerns we would have, and it is always the most difficult part of our strategy work that we do with State and the Coordinator's Office on this, when I think of Albania, for example, I think of the atrocious condition of the electrical network, and we do a lot of work on energy, attempts to try to deal with the energy. I suspect that my energy experts might say, given X amount of dollars, we would like to get to the roads, but we might want to deal with the infrastructure and electricity first.

There is actually a technical reason that, as far as I know, would prevent us from doing anything. There is actually a part of the Foreign Operations Appropriations law which say that, with respect to Kosovo, at least, we are not allowed to do major infrastructure works. So we could not do the road for the part that is in Kosovo. I do not know that there is a restriction like that on the Albania part, but I know that on the Kosovo part we are not, as USAID, supposed to do that.

Mr. ADAMS. The major funding for road building in that region comes from the European Union, and they have a number of corridors outlined and funding behind it. There is a corridor that runs over to Durres under the Stability Pact and under the EU, but I do not think it goes through Kosova. I think it runs through Bulgaria and Macedonia in the plan, and I do not think it has been completed, although parts of it have been completed. So we can do some digging and get you more information on that, Mr. Engel.

Mr. ENGEL. I would appreciate it, and I also want to take the opportunity to thank you for continuing to support the National Albanian-American Council's Hope Fellowship Program, which is really doing fine work here. I have met with many of the women that

they bring, and we know if we are going to have democracy really take root, it is going to be a lot of people coming here and observing how our democracy works and strengthening ties between the Albanian people in Kosova with America. So I want to thank you with it.

I have always promoted interethnic dialogue in Kosova. I stress that all the time. That is what they do. Their parliamentary sessions being open to the public in Kosova; we think this is a direct result of our dialogue. So I hope that you will continue to support that excellent program.

Mr. HILL. Just maybe one quick comment. I have had the privilege of attending the graduation ceremony of the young women about whom you were speaking after several weeks in the United States, and I was extremely impressed with both the quality of the program and the quality of the young women. The fact that they go back to this part of the world and take those skills and interact and become part of civil society I think extremely important.

As I recall right now, in 2003 we will be giving about \$750,000 to support the Hope Fellowship and another \$1.25 million over the next 2 years. So we are committed to them for a couple of million dollars over the next 2 or 3 years because we believe in their program.

Mr. ENGEL. Thank you. Mr. Adams, I would like to ask you a question about Cyprus. I have learned that, breaking with past precedent, that President Bush's FY 2004 budget proposal would cut in half the annual appropriation for Cyprus from \$15 million to seven and a half million. The funds that are cut under the Economic Support Fund are used for scholarships, bicomunal projects, and measures aimed at the reunification of the island and designed to reduce tensions and promote peace and cooperation between the two communities on Cyprus.

So I wanted to ask you about that specifically, and, as you know, with the recent breakdown in the Cyprus negotiations, which were sponsored by the U.N. Secretary General, I am concerned that this is absolutely the wrong time to cut aid to Cyprus. On that note, I want to also commend our Chairman for his excellent resolution on Cyprus, which he is currently circulating.

So I am wondering if you could explain to me why is the Administration planning this large cut in aid to Cyprus, and can we push to have that rescinded? We are not asking for an increase. We just want to keep constant at the \$15 million level, which is really a small sum, given the budget.

Mr. ADAMS. I think the genesis for this and other cuts were in the budget process we had to shift resources to the war on terror, and there is a pipeline in Cyprus of unspent money, a fairly significant pipeline, and the high per capita income there, I think that is why that was chosen to be reduced. That said, when Secretary Powell has been asked this question, he has said, "We are looking for ways to plus that up in 2004." So I will leave it at that. I cannot get in trouble quoting my boss.

Mr. ENGEL. That is true. We quote our bosses all of the time, which are our constituents. I just want to make the point again that at the time when the U.N. talks broke down about Cyprus, I

think this is absolutely the wrong time to diminish any kind of assistance.

Mr. ADAMS. I think also had we reached a peace agreement in Cyprus, we would be looking for a lot more money to implement it. So, hopefully, that will happen at some point.

Mr. ENGEL. Thank you. Thank you, Mr. Chairman.

Mr. BEREUTER. Thank you, Mr. Engel. I will be happy to join you in investigating why we have things accumulated in the pipeline and whether we ought to plus up the amount of the budget proposal for Cyprus.

Would the staff put us on a 10-minute time limit here for each Member now, please? And we will go for our last round of questions here.

Although I know it is not in the area of responsibility of either of you directly, we have had Radio Free Europe, Radio Liberty broadcasting in Eastern and Central Europe. We still do, but they have eliminated seven Eastern European countries due to budget reductions, and we are getting, and I have heard directly, person to person, concerns by leaders in those countries that this is not a time when they want to see those Radio Free Europe broadcasts go away. Could you say anything about the complementarity [sic] of what you are attempting to accomplish and have been attempting to accomplish under SEED and the Freedom Support Act?

Mr. HILL. I would just simply say that I would concur with you that the record of Radio Free Europe in recent decades is a very good one in many respects. It played an extremely important role, particularly during the Cold War. It continues to play an important role in parts of the world.

I am not familiar in our region, since these programs do not fall within my purview, of what their funding levels are, et cetera. I will say that a huge part of what we are trying to do—increasingly, I always ask the question of what is the public relations dimension of what we are doing because it is good to do good work. It is nice if you can do good work and have it reflect positively on the United States. So it would certainly be open to discussions about how our programs or others complement, or could complement more effectively, whatever is planned with respect to Radio Free Europe, but I cannot be more specific about Radio Free Europe itself. I do not know if you can.

Mr. BEREUTER. Mr. Adams, I am going to ask another question for you, if I may, and that is, the money that has been spent under SEED and is proposed to be spent also relates to efforts to prevent the proliferation of expertise on weapons of mass destruction. Just give me a couple of examples of how you have seen that money spent and whether or not you have any concerns about its effectiveness.

Mr. ADAMS. There are a number of programs to prevent the proliferation of weapons. The ones that were in the FREEDOM Support Act primarily had to do with strengthening border controls, helping the export-licensing institutions in a country to have a true licensing system; in other words, to set up sort of an export-control program similar to that that we have. We bought them monitoring equipment.

Mr. BEREUTER. Does any of it relate to the human resources, the expertise?

Mr. ADAMS. Yes. There are three programs to keep scientists who might have expertise in the manufacture of weapons of mass destruction.

Mr. BEREUTER. I have heard a lot about that with respect to the Russians, but what about the other countries that have similar expertise?

Mr. ADAMS. It is active in all of the countries where there were nuclear weapons, really. As you know, we reduced from four nuclear states to one now, Russia, in that region, but there are programs in virtually all of our countries on export control and border security, and, in fact, this past year, we have expanded NADR funding in Southeast Europe out of concerns in Bosnia, Bulgaria, and Serbia. There have been some notorious cases of weapons going to Iraq from those countries. So we are working hard in those countries to strengthen their export-control regimes.

Mr. BEREUTER. And speaking of Serbia, Mr. Wexler, of course, mentioned the terrible tragedy of the assassination of the Prime Minister. They have been allocated \$110 million in SEED assistance in FY 2003, Serbia and Montenegro. The Administration request is \$95 million. But we have the continuation of it conditioned on Serbian cooperation with respect to the International Criminal Tribunal for the Former Yugoslavia and steps to improve respect for rule-of-law, minority rights. Is there anything in general you would like to say about this, and, additionally, how can we provide some aid effectively or provide a direction of existing and the FY 2004 aid program to deal with the criminal network that was in part thought to be responsible, at least, for the assassination?

Mr. ADAMS. That is a very good question. The war criminals that we seek to have extradited to The Hague are part and parcel of the criminal mafia in Serbia, and we are very pleased that the new government is going after them with hammer and tongs. We greatly support that. We have been over there and offered our assistance in that regard. There really is a battle going on in Serbia between the forces of good and the forces of evil, and we need to support the moderate, progressive government there.

Mr. BEREUTER. Are we doing what we can with the funds that we have there to focus on the criminal network in Serbia?

Mr. ADAMS. We are. We are increasing our efforts in that area. We are sending in some new people to advise them, and we are starting some new programs in the law enforcement area. At the same time, I think this certification that has to be made on war criminals has produced results in the past. In other words, at the end of the day, they did come forward and send Mr. Milosevic to The Hague, which was a great thing. There are still a few war criminals there that also need to go there, Mr. Mladic, chief among them, but also the offices responsible for the Vukovar slaughter in Bosnia. So we are supporting them. We think part of their crackdown on crime should also be a crackdown on these war criminals.

Mr. BEREUTER. I hope you are going to give that consideration for a bigger percentage of what we are focusing on in Serbia.

Section 907, which everybody seems to know, with respect to Azerbaijan, the President has waiver authority. Do the restrictions

there hinder the programs you have been trying to implement in Azerbaijan and in the Caucasus region?

Mr. HILL. The fact that the waiver was received this past year gave us the opportunity to work more closely with the government—to work with the government, I should say, in ways that we hope will have a positive economic impact. So the waiver, when utilized, gives us opportunities we do not have. But I should note that we understand why the waiver is there; and, therefore, we leave it to the judgment of those who make that decision as to where we will use our assistance dollars. But I am aware that we have used several more million dollars as a result of that waiver in ways that we would not have previously been able to do.

Mr. ADAMS. I might just add that without the waiver, we really could not accept Azerbaijan's assistance in the war on terrorism, for example. We have now been able to increase our border security assistance via NATO and U.S. interoperability, emphasizing peacekeeping in Afghanistan and Kosovo, antiterrorism assistance. We are doing more with them on law enforcement. And this is both countries because while 907 was applied against Azerbaijan, we, to balance it out, also applied many of its provisions to Armenia. Now, both Armenia and Azerbaijan benefit from greater programs because we can now do direct assistance with the government that was prohibited before this waiver. So we very much value the waiver and would hope that the current status, where it can be renewed by the President each year, will remain intact.

Mr. BEREUTER. Does the Administration still support the elimination of section 907?

Mr. ADAMS. That would be our preference. To eliminate the certification process required to waive 907. As you know, larded in our annual appropriations bills and other legislation are lots of reports and certifications, and they really are a burden, and if any of them that can be simplified or eliminated, we would thank you greatly if you could take them away.

Mr. BEREUTER. Thank you. Does the Administration support the expenditure of IMET and FMF funds in Armenia, even though Armenia has troops in Azerbaijan? And when I say that, I am excluding the area of Nagorno-Karabakh from that discussion.

Mr. ADAMS. We do provide such assistance, both to Armenia—

Mr. BEREUTER. I know we do.

Mr. ADAMS. Yes.

Mr. BEREUTER. But do you think it is appropriate that we are providing that assistance when you have the country occupying the land of the Azeris?

Mr. ADAMS. Well, yes, I do. I do in the sense that, again, there is a growing prospect for peace over in Nagorno Karabac. As these countries get to trust each other and work with each other, they can work with each other in some of these—

Mr. BEREUTER. It is hard to observe it.

Mr. ADAMS. Yes. Well, it is, and it will depend on a lot of their elections. They just had elections in Armenia. They are going to have them in Azerbaijan. Hopefully, the newly re-elected presidents will feel they have a mandate to engage in peace. There are some incentives on both sides to do so, and we are certainly working very hard to try to make that happen.

Mr. BEREUTER. I can see your diplomatic training coming to the fore.

Mr. ADAMS. Thank you, Mr. Chairman.

Mr. BEREUTER. We have been providing a small amount of assistance for regional programs in the Baltic. Can you tell me how that has been spent and what your assessment of those regional efforts within the three Baltic states has gone and whether or not the Administration is supportive, or has it even asked for that kind of small, I think, \$5 million program for FY 2004?

Mr. ADAMS. In FY 2004, we are not asking for the full \$5 million, mainly, again, due to budgetary constraints. If we have to choose among our countries in Central Europe, the real crisis is still down in the Balkans.

Mr. BEREUTER. Do you consider them to have graduated, in effect?

Mr. ADAMS. They have graduated. The AiD missions there have closed down, but the funding we do provide is very useful and very valuable.

Mr. BEREUTER. Can you tell me how you spent the regional money?

Mr. ADAMS. Regional money is spent really in health, HIV/AIDS. It is spent in—help me out here, Kent—health—

Mr. BEREUTER. As compared to money going to individual one of the three countries.

Mr. ADAMS. It is spent on democracy commissions. We give each country some funding to help support NGOs. It is spent on some energy, nuclear energy, problems, and it is also spent on a Northern Europe Initiative with Russia and the Baltic states and some of the Scandinavian states.

Mr. HILL. The only thing I would add is that there are some folks who think when we use the term “graduate,” that means that there is absolutely no more assistance from the United States government, and obviously that is simply not the case. Several million dollars have gone to the northern tier countries: Poland, Hungary, all of these countries. In fact, we are just in the process now of going forward with the \$2.8 million Roma project that will involve three of the graduate countries to try to deal with their problems.

What we really mean by “graduate” is the larger sums, the larger programs, are gone, and the presence of a mission there is gone, but we believe continuing assistance, to some degree, is valuable, so that is part of why we continue to be involved up there.

Mr. BEREUTER. My time has expired, but for the record, I wish that you might respond to us on what your expectations are with respect to the Baltic Enterprise Fund. Mr. Wexler.

Mr. ADAMS. I would be glad to do that.

Mr. WEXLER. Thank you. I would like to spend my second round, if we could, talking about Turkey and what thought and strategic planning is being done now to address what will be our relationship with Turkey post-Iraq. I say this with the proviso that I, along with Representative Whitfield and Representative Grander, organized the American-Turkish Caucus in the House a couple of years ago. I think the three of us did so because we believed very deeply, and I believe even more deeply now, that the American-Turkish relationship is an extremely mutually beneficial one, and when look-

ing at it solely from America's strategic interests, whether it be in Iraq or the Middle East in the context of the Israeli-Palestinian conflict, or whether it be in the context of developing alternative energy sources, or whether it be our ultimate aims with NATO and so forth, that Turkey is crucial to all of these issues.

I was in Turkey about 2 weeks ago, after the Turkish Parliament rejected our request to have our troops enter from their soil. And the purpose for me mentioning this is—this is not a hearing about the Iraq war, but what troubles me so, and I was greatly and remain greatly disappointed in the decisions that the Turkish government has made, but what has greatly disappointed me, and I say this with the utmost respect to our State Department because I believe, with every bone in my body, that our diplomatic corps is the unsung heroes of our government, and my hat goes off to each and every man and woman who is a part of this group, but I think we have utterly failed to adapt to the new political conditions in Turkey.

We, whether it be by arrogance or blinders, I think, have failed to calculate how things have changed in Turkey with the election of their new government, and if we are going to begin to be successful ultimately in countries with Muslim democracies, of which there are very few, that we hope that will be very more, if our performance in Turkey in the last 3 weeks is an indicator of the strategic thought that is occurring, I am afraid that we are well behind the curve in terms of coming up with a creative and ultimately successful policy.

So my question is, not to engage in an analysis of what went wrong or whose fault it is, but where do we go from here? Given the facts as we know them now, how do we proceed to encourage and engage Turkey so that they continue on a path of economic reform? How do we continue to, in a successful way, more successful way, advocate Turkey's entry into the European Union, and what do we do in terms of the programs that you have responsibility for? What, if anything, should be changed reflecting, at least for the immediate sense, a new, unfortunate strain in the relationship between our country and Turkey?

I think the worst thing we could do would be to ignore it, pretend it did not happen, and maybe even worse would be not to do some self-reflection, if that is the right word, as to what we could do in the future differently to better anticipate what this new government needs.

I will stop with this. I was floored when I began to understand what seemed to be, again, without taking any onus of the responsibility of the Turks, without removing any of that, we did not seem to calculate, in terms of our negotiation, what Turkey was going through with respect to Cyprus, what Turkey was going through with respect to their situation with the EU, what Turkey was going through with respect to their own economic problems, and we were not even considering the relationship between Mr. Erdogan and his own military or the suspicions between the different parties in Turkey. And my concern is, are we beginning to calculate these things so that our future policy in Turkey, what programs we have, what directions we take, will maybe possibly be more successful so that we mutually benefit from them?

Mr. ADAMS. I do not think we disagree with you that the relationship with Turkey is a critical relationship. We need to support a Turkey that, as you say, is becoming more democratic. Some of the problems we have had are a reflection of that, and as one of my colleagues put it to me, they could have used a better whip on the vote count than they had. Be that as it may, the relationship has gone on too long and is too strong, I think, to deteriorate, and it will not deteriorate, and I think good evidence of that is the President put in his supplemental request that was sent out the other day a billion dollars for Turkey, out of recognition that they have suffered probably more than any other country from the situation in Iraq. What would normally be one of their greatest trading partners is just not there.

So I think we can repair the relationship. There have been mistakes, certainly, on both sides. Let us not go into them here, but I think we agree with you, and we are glad that you place such interest in Turkey, Congressman.

Mr. HILL. Maybe three quick points. My sense, although this is not my close portfolio, is that the Administration understands a great deal about what a tough place Mr. Erdogan was in in terms of his population. Western European countries had a dilemma that was also significant here where they sometimes took a position on Iraq that did not seem to agree with the opinion polls. So I think there is a recognition that, as one of my friends said, they were between Iraq and a hard place. It was a tough, tough place for them to be in, and I think we understand that.

I do think the very fact that his party won is an indication that there is such a thing as democracy possible in a substantially Islamic world and in our own region, that is, in Eurasia, Tajikistan, the civil war that ended in the late-1990s, which brought democracy, or brought more democracy, I should say, in fact, has a participation now more than in the past of parties that reflect a commitment to Islam.

The third point I want to make here is that I mentioned earlier that I am committed to trying to make sure that the Bureau of Europe and Eurasia thinks about how we interact with the Islamic world and those eight countries that are part of those 19 major recipients. For me, Turkey and Istanbul is the logical place to begin the discussion that can be modeled in Bosnia or Azerbaijan or in Central Asia with respect to engaging the moderate Islamic voice on the question of how they believe, and they do believe, that it is possible to be simultaneously a committed Muslim and yet believe in democracy and human rights and even religious freedom.

Now, that argument is most strongly made when it is made by somebody from that part of the world. They can be a valuable partner with us as we seek to expand that dialogue into areas in our portfolios that have substantial Islamic populations.

Mr. WEXLER. I concur with you entirely, and I presume you would agree, though, that in the context of this effort, if there is a perception that Turkey, in the exercise of her democracy, even if we as Americans may not have been pleased with the result, if there is a perception that there is a punitive nature from an American reaction as a result of Turkey's exercise of democracy, I would predict that all of your good efforts will fail utterly because if there

is a sense that we are judging an ally that has exercised democracy with the best of intentions, with her national interests at stake, if they perceive that America is so, whether it be ethnocentric or so arrogant in our approach, we will lose all of these peoples, and these programs will be of little benefit. I am preaching to the choir. I realize that.

Mr. HILL. I think we both agree with that, and the comments I have found most helpful in recent weeks have been those who, even though they might have disagreed with the decision, have ended their comments by saying, nevertheless, you have to give Turkey the right to make a democratic choice in this matter, and that is the ultimate proof of whether we, in fact, believe in democracy. We have to give them the right to move in the direction that they see best for them.

Mr. WEXLER. Thank you very much.

Mr. BEREUTER. Thank you, Mr. Wexler. Mr. Engel.

Mr. ENGEL. Thank you. Thank you, Mr. Chairman. I want to talk for a minute about Ukraine and Belarus. After Israel and Egypt, I believe Ukraine is the number-three U.S. aid recipient. I believe I am right about that. Am I?

Mr. ADAMS. Not anymore.

Mr. ENGEL. Not anymore. Okay. Well, we were at one time. And I noticed in one of your testimonies—I think it was Dr. Hill—you used the term “autocratic,” I think you did, for both the leaderships of Ukraine and Belarus.

Mr. HILL. I would draw a distinction. I think I avoided naming countries at that moment.

Mr. ENGEL. Well, I have visited both countries, not very recently but within the past couple of years, and the thrust of what I get from the political establishment there is that Ukraine seems to want to look westward while Belarus is continuing to look eastward. I know that we have problems with Mr. Kuchma, all of the nonsense there, but I would like you to talk to me for a minute about, despite Mr. Kuchma—I always have a saying that I say: Presidents come and go and Prime Ministers come and go and even Members of Congress come and go, but the relationship between two countries has to be planted solid. I want Ukraine to continue to look westward. I have not yet given up on Belarus, but I certainly have not given up on Ukraine, and despite Mr. Kuchma, what are we doing to ensure that they continue to look toward the United States?

Mr. ADAMS. Let me take the first crack at that. I think your perception is exactly right. On Belarus, while we have not given up on them, I think we have to revert to what I called earlier perhaps guerrilla tactics and do a lot of exchanges, a lot of democratization, to try to keep the hope for democracy alive there.

Ukraine is a much more complicated place because while you do have President Kuchma, you have the Rada, their parliament, which is showing increasing amounts of independence, which we want to encourage. You also have a judiciary which shows glimmers of independence. We have worked hard to decentralize authority to towns, and mayors now are responding very well to democracy. They are acting on behalf of their people.

We did a policy review of our bilateral relations in September 2002, which included our assistance programs there. At that time, we instituted a temporary pause in assistance to the central government, and, again, only a small percentage of our assistance really goes to the central government. We did the review. We completed the review in January, and we shared the results with the government there, and we lifted the pause, and the results, if I could just summarize them very quickly, is we will keep President Kuchma at arms' length. We will accelerate our shift of assistance away from the central government and toward more political and economic reform and Ukraine's integration into Atlantic and global institutions.

This is paying some benefits. Ukraine is providing a nuclear, chemical, biological unit in Kuwait for the campaign against Iraq, and this is critical because our own Army is somewhat short of these units, so this is helpful. Ukraine joined the coalition yesterday. So, again, this picture is mixed, as you point out, in Ukraine. It is not black and white, and I am glad to see that Congress recognizes this is not such a simple deal: Slash their aid, put them in the dog house because of what Kuchma has done. We are not going to do that. We are going to continue to strengthen civil society. We have grave concerns over their independent media there, and we are going to try to bolster small business development and land titling in order to create sort of a group of small businessmen and prosperous farmers.

Mr. ENGEL. I am happy to hear your comments because I agree with them. I think it would be the worst possible thing we could do if we cut them loose. I think that the way we handle ourselves now will dictate what our relations with them will be for the next several decades.

You mentioned independent media. I participated in—I think it was probably October 2001—it was just about a month after September 11th. There is an independent television station in Kiev, and I was asked to come there and talk about terrorism and being a New Yorker, and I went there, and I was absolutely amazed in Kiev at the independence that this television station, which is broadcast to the entire population, was allowed to have. We had our U.S. Ambassador speak on the program. I did.

We had numerous American officials and officials from other countries all speaking. None of us was told what to say. None of us was prompted. None of us was told what the parameters were. We were totally free to say whatever we wanted, just as if we were in Washington. And I am wondering if you know about the continued status of that station.

Mr. ADAMS. Bad news, I am afraid. The last independent TV station has been bought by a government-affiliated group, actually, I think, Kuchma's son-in-law, so I do not know if you would be allowed to make the same kind of presentation when you go back.

Mr. ENGEL. Sorry to hear that.

Mr. ADAMS. Yes. We are very concerned about the lack of independent TV in Ukraine and are working to try to do something about that, and Dr. Hill may want to—

Mr. HILL. But I think your central point, notwithstanding the loss of that station, stands, and I know Mr. Adams agrees with

this. Belarus and Ukraine are radically different places. I mean, Ukraine is much more like Russia in the sense that it is a mixed picture, and a mixed picture at times which is more encouraging sometimes than Russia is. Let me give you an example.

The government in Ukraine, I see as more perceptive, more open to dealing with the HIV/AIDS problem than the Russian government is right now. Ambassador Pascual hosted, in Kiev just a few weeks ago, a major conference on HIV/AIDS. It was covered broadly in the press. They are putting their money where their mouth is in a way that is quite impressive, more so than Russia is doing.

So there are bright spots, and Mr. Adams was quite right to point to a whole series of successful aid programs that are having an impact in municipal government, in the economy, and in a number of other different ways. In fact, every 6 months we get together with about 15 to 20 people on their side and 15 to 20 on ours to talk about economic cooperation and, yes, outstanding issues. The dialogue occurs, there is not always agreement, but the conversation continues. I think you are right that they want to be oriented toward the West. They are not ambivalent about that, and at the end of the day, I think they are going to move in the right direction.

Mr. ENGEL. Thank you. I want to go back to Kosova for a moment because I have been there a number of times. I intend to go there again. I am a supporter of independence for Kosova. I know the State Department and the Administration are not yet there, but I am hopeful you will be in the future.

One of the things that is very frustrating, again, is the unemployment and lack of a future. I know that Mr. Steiner had set aside some benchmarks. My worry is that if the benchmarks are set aside for some point in the future, and it seems as if the future never comes, it allows younger people who may be frustrated to start dealing with some unsavory elements that may come and promise them the sun, the moon, and the stars. And I think that we need to absolutely concentrate on getting down the unemployment there, building up people's hopes, getting the institutions of democracy there so that they are centered around institutions and not people.

But, you know, if we look at the European Union and our European allies, supposedly, they have a fairly sorry track record. They had a sorry track record in Bosnia until we stepped in. Genocide was going on until we stepped in Kosova. Genocide was happening, and I worry, when the European Union is in charge, they have a tendency to just kind of push things off and push things off and push things off, and the indigenous population gets frustrated and a feeling of hopelessness.

So I want to state that. I would like you to comment on it because I really do think, again, independence, there are three solutions. One is for the international community to stay there forever, and I do not think anybody wants that. The second would be some kind of union with Serbia and Montenegro, and I just do not think that washes anymore, given the track record of the Serbs. The third would be independence, and I think that while you cannot have independence tomorrow, unless there are institutions estab-

lished, you have to give people some hope for the future. So I would like you to comment on that.

Mr. ADAMS. Just briefly, I think you are right, by and large. One of the reasons that the economy is not doing well is because Kosovo is not a sovereign state, it cannot get IFFI loans. The big money is denied it, and that is a problem.

At the same time, the good news, so to speak, is that when the Serbs had their iron grip on Kosovo, all of the good jobs, the government jobs, were not held by ethnic Albanians. So the ethnic Albanians learned to be pretty good entrepreneurs. So that is a bright spot, and we work very hard to encourage that entrepreneurship, and not just among the ethnic Albanians. Our programs are open to all of the residents of that country.

So we are trying, but I think you are right. Until the final disposition is made there, it is going to be tough to really get the economy growing because investors do not want to invest in that kind of uncertainty, that is, Kosovo. So you are right. It is probably better to decide that question sooner rather than later. I might just add, unfortunately, diplomats, when they run into a thorny problem, tend to kick the can down the road.

Mr. HILL. I think Kosovo is one of our most difficult missions in the sense it is a very difficult environment. We have a lot of the same sorts of problems in Bosnia and, to some extent, in Montenegro, where the final governmental status is in question, and it makes an investor reluctant to take a chance, not knowing what is going to happen and if the investment will be secure.

Having said that, I would still add, though, that our programs for small and medium economic enterprises there go forward. They have a lot of success. There is a lot of interest in them. They do well, and yet I would have to concede that our attempts to help returnees have been much more successful in Croatia and Bosnia and in other places, and we have a very small percentage of Serbs who felt safe enough to go back. So the ethnic tension is still a huge, huge factor.

But I am very much committed. We are very much committed to the notion that it is extremely important for us to go the course here and help this country get on its feet economically and become politically stable because it is in a key location, and if we do not want to see the kinds of problems we saw in the late-'90s, we simply have to pay attention.

Mr. ENGEL. And I just want to finally—I know my time is up—say what I said, or alluded to, at least, in my statement. We are at war in Iraq for a number of reasons, not because we have a quarrel with Islam, as some of the radical people would have their people believe, and I think when we have pro-American, Muslim populations that want to be helpful, we should do more to utilize them.

After all, it was the United States that prevented Muslim people, the Kosova Albanians, from being ethnically cleansed in their country. We went to bat for them. If there was ever a showing that the United States is not anti-Muslim, that certainly was it right then and there, and I believe we ought to, in our policies, utilize pro-American, Muslim people wherever they are, and the Albanians are certainly up there. Thank you. Thank you, Mr. Chairman.

Mr. BEREUTER. Mr. Wexler, Mr. Engel, thank you very much for your participation, and, Mr. Adams and Dr. Hill, thank you very much for your written statements and for your oral testimony and responses to our questions today. We appreciate your cooperation and look forward to working with you, and we will see you again. The Subcommittee is adjourned.

[Whereupon, at 3:35 p.m., the Subcommittee meeting was adjourned.]

APPENDIX

MATERIAL SUBMITTED FOR THE HEARING RECORD

ANSWERS SUBMITTED IN WRITING BY THE HONORABLE DR. KENT R. HILL, ASSISTANT ADMINISTRATOR FOR EUROPE AND EURASIA, U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT, TO QUESTIONS ASKED BY THE HONORABLE DOUG BEREUTER, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEBRASKA, AND CHAIRMAN, SUBCOMMITTEE ON EUROPE

CYPRUS: USAID FUNDING PIPELINE

Question:

Can you elaborate on the subject of pipelines in Cyprus of unspent money and why we have money accumulating in the pipeline and whether we ought to plus up the amount of the budget proposal for Cyprus rather than reduce it?

Answer:

My response is limited to the funds that U.S. Agency for International Development (USAID) manages directly. Of the annual \$15 million ESF appropriation for Cyprus, USAID directly programs about \$10 million for the Bicommunal Development Program (BDP) grant. The BDP is implemented through an on-going multi-year \$60 million grant to the United Nations Development Programme (UNDP). The Department of State implements the remaining Cyprus activities.

As of April 21, 2003, USAID's pipeline for Cyprus is \$21.1 million. This \$21.1 million includes approximately \$5.4 million that we are now in process of de-obligating because a previous grantee, the United Nations High Commission for Refugees, was not able to spend the monies. Once these funds are de-obligated, we will use them for bicommunal programs and support to the peace process as deemed appropriate at the time.

In the past, the USAID-funded program expenditure rate had been comparatively slow. But, since 1998, when USAID started using the current implementer, the expenditure rate has increased significantly. Of the \$57.9 million obligated for the BDP so far, \$49.1 million is already expended. Through aggressive programming to seize windows of opportunity, the rate of expenditure has improved to a rate of approximately \$1.2 million per month. Barring political constraints on programming, the entire \$60 million is expected to be obligated and expended by the expiration of the current grant in December 2004. In addition, as of April 23rd, 2003, the Turkish Cypriot authorities are now permitting freedom of movement between the Republic of Cyprus and the "Turkish Republic of Northern Cyprus" for the first time in approximately thirty years. This development is expected to significantly increase our rate of expenditure by facilitating the freedom of movement needed for more rapid development and implementation of bicommunal activities.

The expenditure rate demonstrates that there is not a problem finding valuable programs to support. The principal constraint has been shown to be the politically-motivated, unevenly enforced prohibition of meetings and collaboration between the two Cypriot communities, as imposed by the Turkish Cypriot authorities.

The United States remains strongly committed to reaching a just and durable settlement on Cyprus. The United States is the major and most effective donor supporting a comprehensive approach to a peace settlement in Cyprus. Continued funding of the Cyprus Program is particularly critical during ongoing international efforts to support a peace agreement.

A significant level of continued funding will be needed in order to continue preparing the economic, institutional, and social conditions for settlement in both Cypriot communities, as well as to support the urgent multi-sectoral implementation of an eventual peace plan during a crucial transition period of 12-24 months.

EXPECTATIONS REGARDING THE BALTIC—AMERICAN ENTERPRISE FUND

Question:

What are your expectations with respect to the Baltic American Enterprise Fund?

Answer:

The Baltic American Enterprise Fund (BalAEF) has performed well. The initial \$50 million grant was used for investments (loan and equity) in small and medium sized businesses, residential mortgages, commercial loans, and real estate development. The Fund has played a major role in the development of financial instruments in the form of longer term mortgages as well as in the development of a secondary mortgage market; the Fund has set the standard in the three Baltic countries for new financial products. Since the inception of the Fund it has made a total of \$110 million in investments that are divided accordingly: 13% in Estonia, 59% in Latvia and 28% in Lithuania.

The BalAEF, has been able to leverage the U.S. Government grant with an additional \$108.5 million in funding from the International Finance Corporation and private investors. This additional funding is comprised of \$30 million for the Fund's small equity finance company and \$78.5 million for the Fund's mortgage activities. The Fund is expected to continue its successful activities in the Baltic countries for several more years, based on the additional capital it has raised. When the Fund completes its operations in about 2009, we anticipate that, based on the Fund's successful track record, it will be able to return to the USG an amount approximately equal to its original USAID Grant of \$50 million.

PREPARED STATEMENT OF THE HONORABLE ELIOT L. ENGEL, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF NEW YORK

Mr. Chairman, thank you for calling this important hearing today. Even with the war in Iraq, it is very important to focus on our assistance program for Europe, where many new democracies and allies are beginning to take their rightful role in the world.

I would like to take this opportunity to call the attention of the Subcommittee to two new democracies in central Europe which are supporting us today. Mr. Chairman, as the campaign against Saddam Hussein moves forward, I am pleased to inform you of the strong support of Albania, Kosova, and the Albanian people. During these important days, Albanians throughout the Balkans have not forgotten how America stood with them against Slobodan Milosevic and how our valiant military saved tens of thousands of their people.

Not only has the Republic of Albania sided openly with the United States, it has pledged to send ground troops to Persian Gulf—one of only a handful of nations to do so. It is dispatching 75 of its best commandos, from its otherwise small military, to join our forces.

It is also an honor to inform you of the support of the people of Kosova for America's efforts in Iraq. In a recent *Washington Post* article, Kosovar Prime Minister Bajram Rexhepi declared in the clearest of terms:

In the coming conflict with Saddam Hussein, we stand with you, America. We are here to tell you that your sacrifices for the cause of human freedom are remembered. We are here to bear witness to the fact that the day of the dictator is over—and that peace can be ensured only when all are free.

I ask unanimous consent to include in the Record Prime Minister Rexhepi's OP-ED and a statement from the Prime Minister of Albania, Fatos Nano.

The Albanian people, the majority of whom happen to be of the Muslim faith, are among the most pro-American anywhere on the planet. As we proceed toward war, let us recognize how the Albanian people have recalled our efforts during their time of need as they stand with us today.

I yield back the balance of my time.

MATERIAL SUBMITTED FOR THE RECORD BY THE HONORABLE ELIOT L. ENGEL

washingtonpost.com

The Victory In Kosovo

By Bajram Rexhepi

Wednesday, March 19, 2003; Page A31

There are moments in history when the world is confronted with an age-old question: Do you stand united in the face of evil, or do you close your eyes and hope for the best?

A cruel and cowardly dictator has used his military and security forces to brutalize civilians. He has flouted every international convention and norm relating to the protection of human life and liberty. He has played on the good intentions and patience of the international community to buy time while his reign of terror prevails across the land. He has played the international community for fools.

We in Kosovo know something about facing evil, because that dictator was Slobodan Milosevic, and we were his victims.

For 10 years our people faced the brutality of his police state. Villages were burned, women and children were killed, and all the while the dictator was given one chance after another by the international community to reform his ways. While they talked, our villages burned.

The U.N. Security Council could not agree on what to do. But our voice was heard, and under the leadership of the United States, a coalition of the forces of freedom confronted the dictator with an ultimatum. This coalition acted with the courage of its convictions, backed up by the promise of the use of force in the defense of human rights. In our hour of need, the United States, Britain and the rest of the coalition took on the dictator and liberated a nation.

We Kosovars know firsthand that peace is not simply the absence of war. Dictators will use the goodwill of the international community to buy time while they continue to crush the people under their control. Wherever men are denied freedom, there is a threat to peace. Whenever we leave them in bondage, there is a threat to our own dignity. Whenever we fail to act in the face of evil, a shadow is cast across the future of humanity.

Today the world is faced with the age-old question: Do we stand united in the face of evil, or do we close our eyes and hope for the best? We Kosovars stand with the forces of freedom. We know that when confronting evil, there is no compromise.

And so, in the coming conflict with Saddam Hussein, we stand with you, America. We are here to tell you that your sacrifices for the cause of human freedom are remembered. We are here to bear witness to the fact that the day of the dictator is over—and that peace can be ensured only when all are free.

The writer is prime minister of the coalition government of Kosovo.

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STATEMENT BY FATOS NANO, PRIME MINISTER OF ALBANIA

As a new democracy, Albania is proud to stand with the United States, the United Kingdom and others in the Coalition of the Willing to rid Iraq of the weapons of mass destruction and bring about freedom to the long-suffering Iraqi people.

We Albanians are a nation of freedom fighters who know something about living under oppression. That is why we wholeheartedly support the American-led effort to free the people of Iraq. And though we are a small country with a small military, we are proud to stand side by side with our allies in the fight to end the reign of terror in Baghdad.

Now that the fighting has begun, we expect the Albanian commandos we have sent to aid in the operation will acquit themselves well. Also, we are proud to have pledged our unconditional support in terms of additional troops, ports, bases, and air fields.

History is old. The only new thing about history is the United States. America is the only country in the world that exports freedom. When the historical occasion has called for it, the United States of America has been willing to pay the price in order to free the oppressed, even in states that have sought its harm.

It brought freedom and democracy to Japan and Germany after defeating both in World War II. It rebuilt their societies and taught them about liberty. It helped bring down the Berlin Wall hastening the process of freedom in Central and Eastern Europe. It rarely asked anything in return. Now the United States and its Coalition of the Willing will bring liberty to Iraq.

And when the Coalition of the Willing completes its work, it will be time for the Coalition of Builders to repair, restore and rebuild Iraq under the name of freedom.

We are proud to be in the company of the free.

Tirana, March 20, 2003

